CAPITAL ONE FINANCIAL CORP
Form 10-Q
August 05, 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 June 30, 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 July 31, 2014, there were 561,318,773 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 refer to the notes to our unaudited consolidated financial statements as of June 30, 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 consolidated financial statements and related notes in this Report and the more detailed information contained in our 2013 Form 10-K.

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SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the second quarter and first six months of 2014 and 2013, and selected comparative balance sheet data as of June 30, 2014 and December 31, 2013. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been recast 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 difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized in 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. The period-end carrying value of Acquired Loans accounted for subsequent to acquisition based on expected cash flows to be collected was $26.0 billion and $28.6 billion as of June 30, 2014 and December 31, 2013, respectively. For additional information, see MD&A Credit Risk Profile and Note 4 Loans.

2 Capital One Financial Corporation (COF)

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

ars in millions, except per share data and as noted)	**Three Months Ended June 30, 2014**	**2013**	**Change**	**Six Months Ended June 30, 2014**	**2013**	**Change**
ne statement						
nterest income	**$ 4,315**	$ 4,553	(5) %	**$ 8,665**	$ 9,123	(5)
interest income	**1,153**	1,085	6	**2,173**	2,066	5
net revenue[(2)]	**5,468**	5,638	(3)	**10,838**	11,189	(3)
sion for credit losses	**704**	762	(8)	**1,439**	1,647	(13)
interest expense:						
eting	**335**	330	2	**660**	647	2
tization of intangibles	**136**	167	(19)	**279**	344	(19)
sition-related	**18**	50	(64)	**41**	96	(57)
ting expenses	**2,490**	2,471	1	**4,931**	4,922	
non-interest expense	**2,979**	3,018	(1)	**5,911**	6,009	(2)
ne from continuing operations before income taxes	**1,785**	1,858	(4)	**3,488**	3,533	(1)
ne tax provision	**581**	631	(8)	**1,160**	1,172	(1)
ne from continuing operations, net of tax	**1,204**	1,227	(2)	**2,328**	2,361	(1)
ne (loss) from discontinued operations, net of tax	**(10)**	(119)	(92)	**20**	(197)	**
ncome	**1,194**	1,108	8	**2,348**	2,164	9
ends and undistributed earnings allocated to pating securities	**(4)**	(4)		**(9)**	(9)	
rred stock dividends	**(13)**	(13)		**(26)**	(26)	
ncome available to common shareholders	**$ 1,177**	$ 1,091	8	**$ 2,313**	$ 2,129	9
mon share statistics						
ngs per common share:						
earnings per common share	**$ 2.07**	$ 1.88	10	**$ 4.06**	$ 3.66	11
d earnings per common share	**2.04**	1.85	10	**4.00**	3.62	10
hted average common shares outstanding:						
	567.5	581.5	(2)	**569.2**	581.0	(2)
d	**577.6**	588.8	(2)	**578.9**	587.9	(2)
ends per common share	**0.30**	0.30		**0.60**	0.35	71
age balances						
s held for investment[(3)]	**$ 194,996**	$ 190,562	2	**$ 194,362**	$ 193,265	1
est-earning assets	**263,570**	266,544	(1)	**263,119**	269,008	(2)
assets	**294,744**	297,748	(1)	**294,498**	300,290	(2)
est-bearing deposits	**182,053**	189,311	(4)	**182,431**	189,958	(4)
deposits	**206,315**	210,650	(2)	**206,080**	211,100	(2)
owings	**35,658**	36,915	(3)	**35,817**	39,232	(9)

mon equity	**42,797**	40,637	5	**42,408**	40,335	5
stockholders equity	**43,767**	41,490	5	**43,320**	41,188	5
ted performance metrics						
nase volume(4)	**$ 56,358**	$ 50,788	11	**$ 103,792**	$ 95,886	8
net revenue margin(5)	**8.30%**	8.46%	(16) bps	**8.24%**	8.32%	(8)
nterest margin(6)	**6.55**	6.83	(28)	**6.59**	6.78	(19)
n on average assets	**1.63**	1.65	(2)	**1.58**	1.57	1
n on average tangible assets(7)	**1.73**	1.74	(1)	**1.67**	1.66	1
n on average common equity(8)	**11.09**	11.91	(82)	**10.81**	11.53	(72)
n on average tangible common equity(9)	**17.47**	19.62	(215)	**17.15**	19.18	(203)
y-to-assets ratio	**14.85**	13.93	92	**14.71**	13.72	99
interest expense as a % of average loans held for tment	**6.11**	6.33	(22)	**6.08**	6.22	(14)
ency ratio(10)	**54.48**	53.53	95	**54.54**	53.70	84
tive income tax rate from continuing operations	**32.5**	34.0	(150)	**33.3**	33.2	10
harge-offs	**$ 812**	$ 969	(16) %	**$ 1,743**	$ 2,048	(15)
harge-off rate(11)	**1.67%**	2.03%	(36) bps	**1.79%**	2.12%	(33)
harge-off rate (excluding Acquired Loans)	**1.93**	2.46	(53)	**2.08**	2.58	(50)

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(Dollars in millions except per share data as noted)	**June 30, 2014**	**December 31, 2013**	**Change**
Balance sheet (period end)			
Loans held for investment[3]	**$ 198,528**	$ 197,199	1 %
Interest-earning assets	**266,720**	265,170	1
Total assets	**298,317**	296,933	
Interest-bearing deposits	**180,970**	181,880	(1)
Total deposits	**205,890**	204,523	1
Borrowings	**39,114**	40,654	(4)
Common equity	**42,477**	40,779	4
Total stockholders equity	**43,815**	41,632	5
Credit quality metrics (period end)			
Allowance for loan and lease losses	**$ 3,998**	$ 4,315	(7)
Allowance as a % of loans held for investment (allowance coverage ratio)	**2.01%**	2.19%	(18) bps
Allowance as a % of loans held for investment (excluding Acquired Loans)	**2.30**	2.54	(24)
30+ day performing delinquency rate	**2.24**	2.63	(39)
30+ day performing delinquency rate (excluding Acquired Loans)	**2.58**	3.08	(50)
30+ day delinquency rate	**2.53**	2.96	(43)
30+ day delinquency rate (excluding Acquired Loans)	**2.91**	3.46	(55)
Capital ratios[12]			
Common equity Tier 1 capital ratio	**12.72%**	N/A	**
Tier 1 common ratio	**N/A**	12.19%	**
Tier 1 risk-based capital ratio	**13.31**	12.57	74 bps
Total risk-based capital ratio	**15.36**	14.69	67
Tier 1 leverage ratio	**10.70**	10.06	64
Tangible common equity (TCE) ratio[13]	**9.52**	8.89	63
Associates			
Employees (in thousands), period end[14]	**44.6**	45.4	(2) %

** Change is 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. 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 $153 million and $316 million in the second quarter and first six months of 2014, respectively, and by $192 million and $457 million in the second quarter and first six months of 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees.

(3) 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.

(4) 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.

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

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

(7) 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.

(8) 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.

(9) 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.

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

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

(12) Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to the first quarter of 2014, we calculated regulatory capital measures under Basel I. 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 each of these ratios.

(13) 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.

(14) Effective Q2 2014, we changed our presentation from total full-time equivalent employees to total employees. All prior periods have been recast to conform to the current presentation. During this change, we determined that we had previously understated the total number of full-time equivalent employees by approximately 7%.

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 June 30, 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 section and should be read in conjunction with the consolidated financial statements included in this Report.

We had total loans held for investment of $198.5 billion, deposits of $205.9 billion and stockholders equity of $43.8 billion as of June 30, 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 interchange income net of reward expenses, service charges and other customer-related fees. Our expenses primarily consist of the provision for credit losses, operating expenses (including salaries and associate benefits, occupancy and equipment costs, professional services, communication and data processing expenses and other miscellaneous expenses), 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.

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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 loans 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 second quarter and first six months of 2014 and 2013. 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 results based on the accounting principles generally accepted in the U.S. (U.S. GAAP) results in Note 13 Business Segments of this Report.

Table 2: Business Segment Results[1]

	Three Months Ended June 30,							
	2014				2013			
	Total Net Revenue[2]		Net Income[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	**$ 3,300**	**61%**	**$ 668**	**55%**	$ 3,636	65%	$ 719	58%
Consumer Banking	**1,601**	**29**	**334**	**28**	1,667	30	444	36
Commercial Banking[4]	**545**	**10**	**171**	**14**	495	8	181	15
Other[5]	**22**		**31**	**3**	(160)	(3)	(117)	(9)
Total from continuing operations	**$ 5,468**	**100%**	**$ 1,204**	**100%**	$ 5,638	100%	$ 1,227	100%

	Six Months Ended June 30,							
	2014				2013			
	Total Net Revenue[2]		Net Income[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	**$ 6,610**	**61%**	**$ 1,336**	**57%**	$ 7,287	65%	$ 1,405	59%
Consumer Banking	**3,184**	**29**	**664**	**29**	3,326	30	827	35
Commercial Banking[4]	**1,053**	**10**	**308**	**13**	980	9	374	16
Other[5]	**(9)**		**20**	**1**	(404)	(4)	(245)	(10)
Total from continuing operations	**$ 10,838**	**100%**	**$ 2,328**	**100%**	$ 11,189	100%	$ 2,361	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 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.

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EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of $1.2 billion ($2.04 per diluted common share) on total net revenue of $5.5 billion and net income of $2.3 billion ($4.00 per diluted common share) on total net revenue of $10.8 billion for the second quarter and first six months of 2014, respectively. In comparison, we reported net income of $1.1 billion ($1.85 per diluted common share) on total net revenue of $5.6 billion and net income of $2.2 billion ($3.62 per diluted common share) on total net revenue of $11.2 billion for the second quarter and first six months of 2013, respectively.

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 12.72% as of June 30, 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 due to methodological differences in the calculation of the ratios.

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). Through the end of the second quarter of 2014, we have repurchased approximately $1 billion of common stock and expect to complete the 2014 Stock Repurchase Program by the first quarter of 2015. See Capital Management below for additional information.

Below are additional highlights of our performance in the second quarter and first six months of 2014. These highlights generally are based on a comparison between the results of the second quarter and first six months 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 June 30, 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.

Total Company

Earnings: Our net income increased by $86 million in the second quarter of 2014, or 8%, to $1.2 billion compared to $1.1 billion in the second quarter of 2013, and our net income increased by $184 million in the first six months of 2014, or 9%, to $2.3 billion, compared to $2.2 billion for the first six months of 2013. Significant drivers of the increase in earnings in the second quarter and first six months of 2014 were a decrease in the provision for credit losses due to lower charge-offs; and a pre-tax benefit for mortgage representation and warranty losses of $18 million and $51 million for the second quarter and first six months of 2014, respectively, compared to a pre-tax provision for mortgage representation and warranty losses of $183 million and $280 million for the second quarter and first six months of 2013 respectively. These items were partially offset by a decrease in net interest income attributable to lower average interest-earning assets and lower yields in the Credit Card business.

Loans Held for Investment: Period-end loans held for investment increased by $1.3 billion, or 1%, in the first six months of 2014, to $198.5 billion as of June 30, 2014, from $197.2 billion as of December 31, 2013. The increase was due to commercial and industrial and commercial and multifamily real estate loan growth in our Commercial

Banking business, and continued strong auto loan originations outpacing the run-off of the acquired home loans portfolio in our Consumer Banking business. Overall, there was a decline in our credit card loan portfolio primarily due to seasonality in the first quarter, partially offset by loan growth in the second quarter in our Credit Card business.

Charge-off and Delinquency Statistics: Our net charge-off rate decreased by 36 basis points to 1.67% in the second quarter of 2014, compared to 2.03% in the second quarter of 2013, and our net charge-off rate decreased by 33 basis points in the first six months of 2014, to 1.79%, compared to 2.12% for the first six months of 2013. The decrease in our reported net charge-offs and net charge-off rates were largely due to the improvement in delinquencies and run-off of portfolios with higher credit risk. Our reported 30+ day

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delinquency rate declined to 2.53% as of June 30, 2014, from 2.96% as of December 31, 2013, and 2.71% as of June 30, 2013. The decrease from year end was primarily due to seasonality and strong credit performance. 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 for loan and lease losses by $317 million to $4.0 billion as of June 30, 2014, from $4.3 billion as of December 31, 2013. The decrease in the allowance for loan and lease losses was mainly due to improvements in delinquency inventories coupled with an improved credit outlook. The allowance coverage ratio declined to 2.01% as of June 30, 2014, from 2.19% as of December 31, 2013.

Representation and Warranty Reserve: The representation and warranty reserve decreased by $160 million to $1.0 billion as of June 30, 2014, from $1.2 billion as of December 31, 2013. We recorded a benefit for mortgage representation and warranty losses of $51 million (which includes benefits of $36 million and $15 million in discontinued operations and continuing operations, respectively) in the first six months of 2014. The decrease in representation and warranty reserve was primarily driven by legal developments.

Business Segment Financial Performance

Credit Card: Our Credit Card business generated net income from continuing operations of $668 million and $1.3 billion in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $719 million and $1.4 billion in the second quarter and first six months of 2013, respectively. The decreases in net income for these periods were driven by a decrease in net interest income primarily due to the Portfolio Sale in the third quarter of 2013 and the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition, partially offset by (i) a reduction in the provision for credit losses as a result of lower charge-offs on the underlying loan portfolio; (ii) lower acquisition-related costs; and (iii) lower operating expenses attributable to the Portfolio Sale and operating efficiency. Period-end loans held for investment in our Credit Card business decreased by $2.3 billion to $79.0 billion as of June 30, 2014 from $81.3 billion as of December 31, 2013. The decrease was largely due to seasonal decreases in the first quarter of 2014 partially offset by growth in the second quarter of 2014.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $334 million and $664 million in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $444 million and $827 million in the second quarter and first six months of 2013, respectively. The decreases in net income in these periods were primarily attributable to a higher provision for loan and lease losses, net interest margin compression in both retail banking and the auto loans portfolio, partially offset by growth in the auto loans portfolio. Period-end loans held for investment in our Consumer Banking business increased by $300 million to $71.1 billion as of June 30, 2014, from $70.8 billion as of December 31, 2013, due to growth in our auto loans portfolio outpacing the run-off in our home loans portfolio.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $171 million and $308 million in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $181 million and $374 million in the second quarter and first six months of

2013, respectively. The decreases in net income for these periods were primarily due to a higher provision for credit losses, reflecting a lower allowance release. We recorded a provision for credit losses of $12 million and $52 million in the second quarter and first six months of 2014, respectively, compared to a benefit of $14 million and $49 million in the second quarter and first six months of 2013, respectively. Higher revenue due to growth in commercial loans was offset by rate spread compression and increased operating expenses associated with continued investments in business growth and the Beech Street Capital acquisition. Period-end loans held for investment in our Commercial Banking business increased by $3.3 billion to $48.3 billion as of June 30, 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 and multifamily real estate businesses.

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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 Financia 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 continue to 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 relative to our initial expectations for 2014. We expect an increase in marketing in the second half of 2014, driven by both expected seasonal trends and because of the success and continuing opportunities we see to grow customer relationships, purchase volume, and loans. Although we had a release of allowance in the second quarter, we believe that we are less likely to see allowance releases going forward as we return to growth and considering charge-offs are below historical averages. Actual results are expected to vary from these expectations within a reasonable margin of error.

We expect that pre-provision earnings will rise in 2015, with growth in average loans driving increased revenues, partially offset by higher non-interest expense, as we continue to invest to sustain growth and returns. Although it will vary from quarter to quarter, we expect the full-year 2015 efficiency ratio to be between 53% and 54%, excluding non-recurring items.

We believe our actions have created a balance sheet with strong capital and liquidity. The Federal Reserve did not object to our capital plan submitted in the 2014 CCAR cycle. 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 authorized the establishment of a share repurchase program to repurchase of up to $2.5 billion of shares of our common stock through the end of the first quarter of 2015. Under this program, we repurchased approximately $1 billion of our shares in the second quarter, and we expect to repurchase an additional $1.5 billion over the next three quarters.

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 2014 Stock 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.

Business Segment Expectations

Credit Card: We returned to year-over-year growth in the Domestic Card portfolio in the second quarter. Our estimate of the run-off of acquired card loans is now substantially less than $1 billion for 2014 and we no longer

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expect it to be a significant offset to growth. Overall, we believe that our Domestic Card portfolio 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 that auto margins and returns will continue to decline, but remain within ranges that support an attractive business. We expect home loans run-off of approximately $6 billion in 2014 based on our current view of interest rates. In addition, we expect the impacts of the prolonged low interest rate environment to continue to pressure the economics of our retail banking deposit businesses, even if rates rise in 2014.

Commercial Banking: In our Commercial Banking business, charge-offs, non-performing loans and criticized loans are at exceptionally low levels and we expect strong credit performance to continue in 2014. As competition continues to increase, it is likely that the pace of the growth in our Commercial Banking business will moderate over time. 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

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 Financial Accounting Standards 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 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 second quarter and first six months 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 and the interest expense on our interest-bearing liabilities. Interest-earning assets include loans, investment securities and other interest-earning assets and interest-bearing liabilities 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.

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 second quarter and first six months of 2014 and 2013.

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Table 3: Average Balances, Net Interest Income and Net Interest Yield(1)

	Three Months Ended June 30,					
	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:						
Loans:						
Credit card:						
Domestic credit card	**$ 69,366**	**$ 2,419**	**13.95%**	$ 76,125	$ 2,782	14.62%
International credit card	**7,621**	**318**	**16.69**	7,980	323	16.19
Total credit card	**76,987**	**2,737**	**14.22**	84,105	3,105	14.77
Consumer banking	**71,049**	**1,103**	**6.21**	73,065	1,093	5.98
Commercial banking	**47,152**	**412**	**3.50**	39,530	379	3.84
Other	**134**	**27**	**80.60**	174	19	43.68
Total loans, including loans held for sale	**195,322**	**4,279**	**8.76**	196,874	4,596	9.34
Investment securities	**62,518**	**409**	**2.62**	63,907	391	2.45
Cash equivalents and other interest-earning assets	**5,730**	**24**	**1.68**	5,763	23	1.60
Total interest-earning assets	**$ 263,570**	**$ 4,712**	**7.15**	$ 266,544	$ 5,010	7.52
Cash and due from banks	**2,871**			2,677		
Allowance for loan and lease losses	**(4,099)**			(4,604)		
Premises and equipment, net	**3,808**			3,784		
Other assets	**28,594**			29,347		
Total assets	**$ 294,744**			$ 297,748		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 182,053**	**$ 272**	**0.60**	$ 189,311	$ 318	0.67
Securitized debt obligations	**10,731**	**39**	**1.45**	10,942	45	1.65
	16,004	**78**	**1.95**	12,692	82	2.58

Senior and subordinated notes									
Other borrowings		**8,923**		**8**	**0.36**		13,281		12	0.36
Total interest-bearing liabilities	**$**	**217,711**	**$**	**397**	**0.73**	$	226,226	$	457	0.81
Non-interest bearing deposits		**24,262**					21,339			
Other liabilities		**9,004**					8,693			
Total liabilities		**250,977**					256,258			
Stockholders equity		**43,767**					41,490			
Total liabilities and stockholders equity	**$**	**294,744**				$	297,748			
Net interest income/spread			**$**	**4,315**	**6.42**			$	4,553	6.71
Impact of non-interest bearing funding					**0.13**					0.12
Net interest margin					**6.55%**					6.83%

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	Six Months Ended June 30,					
	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:						
Loans:						
Credit card:						
Domestic credit card	**$ 69,582**	**$ 4,896**	**14.07%**	$ 77,547	$ 5,598	14.44%
International credit card	**7,655**	**638**	**16.67**	8,108	652	16.08
Total credit card	**77,237**	**5,534**	**14.33**	85,655	6,250	14.59
Consumer banking	**70,943**	**2,197**	**6.19**	73,756	2,195	5.95
Commercial banking	**46,361**	**807**	**3.48**	39,058	756	3.87
Other	**133**	**48**	**72.18**	179	44	49.16
Total loans, including loans held for sale	**194,674**	**8,586**	**8.82**	198,648	9,245	9.31
Investment securities	**62,322**	**825**	**2.65**	63,930	765	2.39
Cash equivalents and other interest-earning assets	**6,123**	**54**	**1.76**	6,430	51	1.59
Total interest-earning assets	**$ 263,119**	**$ 9,465**	**7.19**	$ 269,008	$ 10,061	7.48
Cash and due from banks	**2,849**			2,475		
Allowance for loan and lease losses	**(4,202)**			(4,778)		
Premises and equipment, net	**3,823**			3,733		
Other assets	**28,909**			29,852		
Total assets	**$ 294,498**			$ 300,290		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 182,431**	**$ 548**	**0.60**	$ 189,958	$ 644	0.68
Securitized debt obligations	**10,576**	**77**	**1.46**	11,348	101	1.78
Senior and subordinated notes	**15,088**	**155**	**2.05**	12,340	164	2.66
Other borrowings	**10,153**	**20**	**0.39**	15,544	29	0.37
Total interest-bearing liabilities	**$ 218,248**	**$ 800**	**0.73**	$ 229,190	$ 938	0.82
Non-interest bearing deposits	**23,649**			21,142		
Other liabilities	**9,281**			8,770		
Total liabilities	**251,178**			259,102		

Stockholders equity	**43,320**				41,188			
Total liabilities and stockholders equity	**$ 294,498**				$ 300,290			
Net interest income/spread		**$**	**8,665**	**6.46**		$	9,123	6.66
Impact of non-interest bearing funding				**0.13**				0.12
Net interest margin				**6.59%**				6.78%

(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 $336 million and $695 million in the second quarter and first six months of 2014, respectively, and $464 million and $944 million in the second quarter and first six months of 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.

Net interest income decreased by $238 million, or 5%, from the second quarter of 2013 to $4.3 billion in the second quarter of 2014 primarily driven by a decrease in average interest-earning assets in our Credit Card business, partially offset by lower funding costs. Net interest income of $8.7 billion in the first six months of 2014, decreased by $458 million, or 5%, from the first six months of 2013, primarily driven by a decrease in average interest-earning assets, partially offset by lower funding costs and higher yields in investment securities.

Average Interest-Earning Assets: The decrease in average interest-earning assets in the second quarter of 2014, compared to the second quarter of 2013, and in the first six months of 2014, compared to the first six months of 2013, was primarily driven by the Portfolio Sale in the third quarter of 2013, the run-off in our acquired home loans portfolio within our Consumer Banking business, and the run-off of certain receivables acquired in the 2012 U.S. card acquisition, 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 second quarter of 2014, compared to the second quarter of 2013, and in the first six months of 2014, compared to the first six months of 2013, was primarily due to lower yields on our credit card and commercial loan portfolios, partially offset by a reduction in our cost of funds and higher yields in our investment securities.

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 June 30, 2014 vs 2013			Six Months Ended June 30, 2014 vs. 2013		
(Dollars in millions)	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	$ (368)	$ (256)	$ (112)	$ (716)	$ (605)	$ (111)
Consumer banking	10	(30)	40	2	(84)	86
Commercial banking	33	66	(33)	51	127	(76)
Other	8	(4)	12	4	(11)	15
Total loans, including loans held for sale	(317)	(224)	(93)	(659)	(573)	(86)

Investment securities	18	(8)	26	60	(19)	79
Cash equivalents and other interest-earning assets	1		1	3	(2)	5
Total interest income	(298)	(232)	(66)	(596)	(594)	(2)
Interest expense:						
Deposits	(46)	(12)	(34)	(96)	(25)	(71)
Securitized debt obligations	(6)		(6)	(24)	(6)	(18)
Senior and subordinated notes	(4)	16	(20)	(9)	28	(37)
Other borrowings	(4)	(4)		(9)	(10)	1
Total interest expense	(60)		(60)	(138)	(13)	(125)
Net interest income	$ (238)	$ (232)	$ (6)	$ (458)	$ (581)	$ 123

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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 interchange income net of rewards expense, service charges and other customer-related fees, and other non-interest income. Other non-interest income includes the pre-tax provision for mortgage representation and warranty losses 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.

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

Table 5: Non-Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2014**	**2013**	**2014**	**2013**
Service charges and other customer-related fees	**$ 460**	$ 534	**$ 934**	$ 1,084
Interchange fees, net	**535**	486	**975**	931
Net other-than-temporary impairment	**(1)**	(4)	**(6)**	(29)
Other non-interest income:				
Benefit for mortgage representation and warranty losses[1]	**29**	4	**15**	14
Net (losses) gains from the sale of investment securities	**(1)**	1	**12**	3
Net fair value gains (losses) on free-standing derivatives[2]	**13**	2	**26**	(3)
Other	**118**	62	**217**	66
Total other non-interest income	**159**	69	**270**	80
Total non-interest income	**$ 1,153**	$ 1,085	**$ 2,173**	$ 2,066

(1) Represents the benefit for mortgage representation and warranty losses recorded in continuing operations. For the total impact to the provision for mortgage representation and warranty losses, including the portion recognized on our consolidated statements of income as a component of discontinued operations, see MD&A Consolidated Balance Sheets Analysis Table 14: Changes in Representation and Warranty Reserve.

(2) Excludes changes in cumulative credit risk valuation adjustments related to derivatives in a gain position. Credit risk valuation adjustments for derivative assets totaled $5 million and $7 million as of June 30, 2014 and December 31, 2013, respectively. See Note 9 Derivative Instruments and Hedging Activities for additional information.

Non-interest income increased by $68 million, or 6%, to $1.2 billion in the second quarter of 2014, from $1.1 billion in second quarter of 2013. Non-interest income increased by $107 million, or 5%, to $2.2 billion in the first six months of 2014, from $2.1 billion in the first six months of 2013. The main drivers for the increases in non-interest income were (i) an increase in interchange fees, net due to strong purchase volume in our credit card loan portfolio; and (ii) an increase in the benefit for mortgage representation and warranty losses resulting from legal developments. These were partially offset by a decrease in service charges and other customer-related fees in our Credit Card business reflecting our strategic choice to discontinue certain card-related fees.

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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 $704 million and $1.4 billion in the second quarter and first six months of 2014, respectively, compared with $762 million and $1.6 billion in the second quarter and first six months of 2013, respectively.

The decreases in the provision for credit losses of $58 million and $208 million in the second quarter and first six months of 2014, respectively, were driven by lower charge-offs partially offset by a lower release of the allowance for loan and lease losses. The decrease in our reported net charge-offs was largely due to credit improvement of the underlying portfolio. The decrease in our allowance for loan and lease losses was attributable to an overall improved credit outlook coupled with improvements in delinquency inventories.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses within Credit Risk Profile Summary of Allowance for Loan and Lease Losses, Note 4 Loans and No 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 expenses and other miscellaneous expenses, as well as marketing costs, merger-related expenses and amortization of intangibles. Table 6 displays the components of non-interest expense for the second quarter and first six months of 2014 and 2013.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2014**	**2013**	**2014**	**2013**
Salaries and associate benefits	**$ 1,125**	$ 1,118	**$ 2,286**	$ 2,213
Occupancy and equipment	**447**	371	**852**	728
Marketing	**335**	330	**660**	647
Professional services	**296**	340	**583**	662
Communications and data processing	**203**	236	**399**	452
Amortization of intangibles	**136**	167	**279**	344
Other non-interest expense:				
Collections	**98**	119	**197**	248
Fraud losses	**57**	53	**130**	105
Bankcard, regulatory and other fee assessments	**114**	142	**227**	280
Other	**168**	142	**298**	330
Other non-interest expense	**437**	456	**852**	963
Total non-interest expense	**$ 2,979**	$ 3,018	**$ 5,911**	$ 6,009

(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 $18 million and $41 million in the second quarter and first six months of 2014, respectively as compared with $50 million and $96 million in the second quarter and first six months of 2013, respectively. These amounts are comprised of transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

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Non-interest expense decreased by $39 million, or 1%, to $3.0 billion in the second quarter of 2014, from $3.0 billion in the second quarter of 2013. Non-interest expense decreased by $98 million, or 2%, to $5.9 billion in the first six months of 2014, from $6.0 billion in the first six months of 2013. The decrease reflects a reduction in acquisition-related costs and a decline in amortization of intangibles. These were partially offset by (i) higher operating expenses attributable to growth in our auto loans 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) higher operating expenses attributable to growth in our Commercial Banking business, partially offset by lower bankcard, regulatory and other fee assessments and communication and data processing expenses.

Income Taxes

We recorded income tax provisions of $581 million (32.5% effective income tax rate) and $1.2 billion (33.3% effective income tax rate) in the second quarter and first six months of 2014, respectively, compared to income tax provisions of $631 million (34.0% effective income tax rate) and $1.2 billion (33.2% effective income tax rate) in the second quarter and first six months of 2013, respectively. The decrease in our effective income tax rate in the second quarter of 2014 from the second quarter of 2013, was primarily attributable to increased tax credits and tax exempt income, as well as a reduction in unfavorable net discrete tax expense. The slight increase in our effective income tax rate in the first six months of 2014 from the first six months of 2013 was primarily attributable to increased discrete tax expense in the first six months of 2014 over the first six months of 2013, partially offset by increased tax credits and tax exempt income. Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 32.5% in both the second quarter and first six months of 2014, and 33.5%, and 33.1% in the second quarter and first six months of 2013, respectively.

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. Loss from discontinued operations, net of tax, was $10 million and income from discontinued operations, net of tax, was $20 million as of the second quarter and first six months of 2014, respectively, compared to losses of $119 million and $197 million in the second quarter and first six months of 2013, respectively. The pre-tax portion of the provision for mortgage representation and warranty losses recognized on our consolidated statements of income as a component of discontinued operations was a provision of $11 million ($7 million net of tax) and a benefit of $36 million ($23 million net of tax) in the second quarter and first six months of 2014, respectively, and provisions of $187 million ($117 million net of tax) and $294 million ($184 million net of tax) in the second quarter and first six months of 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.

Below we summarize our business segment results for the second quarter and first six months 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 June 30, 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. Additionally, we 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 expenses and marketing expenses. Rewards costs are generally netted against interchange fees.

Our Credit Card business generated net income from continuing operations of $668 million and $1.3 billion in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $719 million and $1.4 billion in the second quarter and first six months of 2013, respectively.

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

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Table 7: Credit Card Business Results

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2014**	2013	**Change**	**2014**	2013	**Change**
Selected income statement data:						
Net interest income	**$ 2,461**	$ 2,804	(12) %	**$ 4,986**	$ 5,634	(12) %
Non-interest income	**839**	832	1	**1,624**	1,653	(2)
Total net revenue[1]	**3,300**	3,636	(9)	**6,610**	7,287	(9)
Provision for credit losses	**549**	713	(23)	**1,107**	1,456	(24)
Non-interest expense	**1,719**	1,819	(5)	**3,445**	3,667	(6)
Income from continuing operations before income taxes	**1,032**	1,104	(7)	**2,058**	2,164	(5)
Income tax provision	**364**	385	(5)	**722**	759	(5)
Income from continuing operations, net of tax	**$ 668**	$ 719	(7)	**$ 1,336**	$ 1,405	(5)
Selected performance metrics:						
Average loans held for investment[2]	**$ 76,997**	$ 77,946	(1)	**$ 77,248**	$ 80,435	(4)
Average yield on loans held for investment[3]	**14.22%**	15.94%	(172) bps	**14.33%**	15.54%	(121) bps
Total net revenue margin[4]	**17.14**	18.66	(152)	**17.11**	18.12	(101)
Net charge-offs	**$ 685**	$ 850	(19) %	**$ 1,465**	$ 1,772	(17) %
Net charge-off rate	**3.56%**	4.36%	(80) bps	**3.79%**	4.41%	(62) bps
Card loan premium amortization and other intangible accretion[5]	**$ 31**	$ 57	(46) %	**$ 68**	$ 114	(40) %
PCCR intangible amortization	**94**	110	(15)	**192**	226	(15)
Purchase volume[6]	**56,358**	50,788	11	**103,792**	95,886	8

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[2]	**$ 79,018**	$ 81,305	(3) %
30+ day performing delinquency rate	**2.89%**	3.46%	(57) bps
30+ day delinquency rate	**2.97**	3.54	(57)
Nonperforming loan rate	**0.10**	0.11	(1)
Allowance for loan and lease losses	**$ 2,858**	$ 3,214	(11) %
Allowance coverage ratio[7]	**3.62%**	3.95%	(33) bps

(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 $153 million and $316 million in the second quarter and first six months of 2014, respectively, and by $192 million and $457 million in the second quarter and first six months of 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $182 million and $190 million as of June 30, 2014 and December 31, 2013, respectively.

(2) 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 the 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 152 and 124 basis points in the second quarter and first six months of 2013, respectively.

(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 the 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 169 and 139 basis points in the second quarter and first six months of 2013, respectively.

(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 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 second quarter and first six months of 2014, compared with the second quarter and first six months of 2013, and changes in financial condition and credit performance between June 30, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $343 million, or 12%, in the second quarter of 2014 from the second quarter of 2013, to $2.5 billion, and by $648 million, or 12%, in the first six months of 2014 from the first six months of 2013, to $5.0 billion. The decrease in net interest income was primarily driven by the Portfolio Sale in the third quarter of 2013 and the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Non-Interest Income: Non-interest income increased by $7 million, or 1%, in the second quarter of 2014 from the second quarter of 2013, to $839 million, and decreased by $29 million, or 2%, in the first six months of 2014 from the first six months of 2013, to $1.6 billion. The decrease in the first six months of 2014 compared to the first six months of 2013 was largely due to a reduction in customer fees, partially offset by increased interchange fees, net driven by higher purchase volume.

Provision for Credit Losses: The provision for credit losses decreased by $164 million, or 23%, in the second quarter of 2014 from the second quarter of 2013, to $549 million, and by $349 million, or 24%, in the first six months of 2014 from the first six months of 2013, to $1.1 billion. The decrease was driven by lower charge-offs in the second quarter and first six months of 2014 attributable to lower delinquencies in the underlying loan portfolio.

Non-Interest Expense: Non-interest expense decreased by $100 million, or 5%, in the second quarter of 2014 from the second quarter of 2013, to $1.7 billion, and by $222 million, or 6%, in the first six months of 2014 from the first six months of 2013, to $3.4 billion. The decrease was largely due to lower acquisition-related costs and operating expenses associated with the Portfolio Sale in the third quarter of 2013, as well as operating efficiencies. Non-interest expense also included PCCR intangible amortization of $192 million in the first six months of 2014, compared with $226 million in the first six months of 2013.

Loans Held for Investment: Period-end loans held for investment decreased by $2.3 billion, or 3%, to $79.0 billion as of June 30, 2014, from $81.3 billion as of December 31, 2013. The decrease was largely due to expected seasonal decreases in the first quarter 2014 and the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition, partially offset by growth in the credit card loan portfolio in the second quarter of 2014.

Charge-off and Delinquency Statistics: Our reported net charge-off rate decreased to 3.56% and 3.79% in the second quarter and first six months of 2014, respectively, from 4.36% and 4.41% in the second quarter and first six months of 2013, respectively. The decrease was largely due to continued economic improvement and portfolio seasoning. The 30+ day delinquency rate decreased to 2.97% as of June 30, 2014, from 3.54% as of December 31, 2013 primarily due to seasonality and strong credit performance.

Domestic Card Business

Domestic Card generated net income from continuing operations of $607 million and $1.2 billion in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $638 million and $1.3 billion in the second quarter and first six months of 2013, respectively. Domestic Card accounted for 90% of total net revenues in the second quarter and first six months of 2014 and 2013, for our Credit Card business.

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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 June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Selected income statement data:						
Net interest income	**$ 2,193**	$ 2,536	(14) %	**$ 4,448**	$ 5,092	(13) %
Non-interest income	**768**	737	4	**1,470**	1,461	1
Total net revenue	**2,961**	3,273	(10)	**5,918**	6,553	(10)
Provision for credit losses	**504**	647	(22)	**990**	1,294	(23)
Non-interest expense	**1,513**	1,635	(7)	**3,058**	3,268	(6)
Income from continuing operations before income taxes	**944**	991	(5)	**1,870**	1,991	(6)
Income tax provision	**337**	353	(5)	**668**	709	(6)
Income from continuing operations, net of tax	**$ 607**	$ 638	(5)	**$ 1,202**	$ 1,282	(6)
Selected performance metrics:						
Average loans held for investment(1)	**$ 69,376**	$ 69,966	(1)	**$ 69,592**	$ 72,327	(4)
Average yield on loans held for investment(2)	**13.95%**	15.91%	(196) bps	**14.07%**	15.48%	(141) bps
Total net revenue margin(3)	**17.07**	18.71	(164)	**17.01**	18.12	(111)
Net charge-offs	**$ 610**	$ 749	(19) %	**$ 1,310**	$ 1,576	(17) %
Net charge-off rate	**3.52%**	4.28%	(76) bps	**3.77%**	4.36%	(59) bps
Card loan premium amortization and other intangible accretion(4)	**$ 31**	$ 57	(46) %	**$ 68**	$ 114	(40) %
PCCR intangible amortization	**94**	$ 110	(15)	**192**	226	(15)
Purchase volume(5)	**52,653**	47,273	11	**96,792**	89,104	9

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment(1)	**$ 71,165**	$ 73,255	(3) %
30+ day delinquency rate	**2.83%**	3.43%	(60) bps

Allowance for loan and lease losses	**$ 2,516**	$ 2,836	(11) %
Allowance coverage ratio[6]	**3.54%**	3.87%	(33) bps

(1) 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 the 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 168 and 136 basis points in the second quarter and first six months of 2013, respectively.

(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 the 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 188 and 154 basis points in the second quarter and first six months of 2013, respectively.

(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.

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 second quarter and first six months of 2014, compared with the second quarter and first six months of 2013, were declines in revenue primarily driven by the Portfolio Sale in the third quarter of 2013 and the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition, partially offset by a lower provision for credit losses, lower acquisition-related costs, as well as lower operating expenses attributable to the Portfolio Sale in 2013 and operating efficiencies.

The decrease in period-end loans held for investment was due to the expected seasonal decreases in the first quarter of 2014 and the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition, partially offset by the growth in the credit card loan portfolio in the second quarter of 2014.

International Card Business

International Card generated net income from continuing operations of $61 million and $134 million in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $81 million and $123 million in the second quarter and first six months of 2013, respectively. International Card accounted for 10% of total net revenues in the second quarter and first six months of 2014 and 2013, for our Credit Card business.

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

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Table 7.2: International Card Business Results

(Dollars in millions)	Three Months Ended June 30, 2014	2013	Change		Six Months Ended June 30, 2014	2013	Change	
Selected income statement data:								
Net interest income	**$ 268**	$ 268		%	**$ 538**	$ 542	(1)	%
Non-interest income.	**71**	95	(25)		**154**	192	(20)	
Total net revenue	**339**	363	(7)		**692**	734	(6)	
Provision for credit losses	**45**	66	(32)		**117**	162	(28)	
Non-interest expense	**206**	184	12		**387**	399	(3)	
Income from continuing operations before income taxes	**88**	113	(22)		**188**	173	9	
Income tax provision	**27**	32	(16)		**54**	50	8	
Income from continuing operations, net of tax	**$ 61**	$ 81	(25)		**$ 134**	$ 123	9	
Selected performance metrics:								
Average loans held for investment[1]	**$ 7,621**	$ 7,980	(4)		**$ 7,656**	$ 8,108	(6)	
Average yield on loans held for investment[2]	**16.74%**	16.19%	55	bps	**16.69%**	16.08%	61	bps
Total net revenue margin[3]	**17.76**	18.20	(44)		**18.07**	18.11	(4)	
Net charge-offs.	**$ 75**	$ 101	(26)	%	**$ 155**	$ 196	(21)	%
Net charge-off rate	**3.93%**	5.08%	(115)	bps	**4.05%**	4.83%	(78)	bps
Purchase volume[4]	**$ 3,705**	$ 3,515	5	%	**$ 7,000**	$ 6,782	3	%

(Dollars in millions)	June 30, 2014	December 31, 2013	Change	
Selected period-end data:				
Loans held for investment[1]	**$ 7,853**	$ 8,050	(2)	%
30+ day performing delinquency rate	**3.40%**	3.71%	(31)	bps
30+ day delinquency rate	**4.20**	4.56	(36)	
Nonperforming loan rate	**1.03**	1.10	(7)	
Allowance for loan and lease losses	**$ 342**	$ 378	(10)	%
Allowance coverage ratio[5]	**4.36%**	4.70%	(34)	bps

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

The decrease in net income in the second quarter of 2014 compared to the second quarter of 2013 was primarily due to a build of $37 million in our U.K. cross sell reserves in the second quarter of 2014 related to the number of customer claims declining at a slower pace than we previously expected. The cross sell provision is split evenly and recorded in revenue and in non-interest expense.

The increase in net income in the first six months of 2014 compared to the first six months of 2013 was primarily due to 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 the U.K. cross sell reserve build.

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 costs, professional services, communications and data processing expenses, as well as marketing expenses.

Our Consumer Banking business generated net income from continuing operations of $334 million and $664 million in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $444 million and $827 million in the second quarter and first six months of 2013, respectively.

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

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	2014	2013	Change	2014	2013	Change
Selected income statement data:						
Net interest income	**$ 1,431**	$ 1,478	(3) %	**$ 2,864**	$ 2,956	(3) %
Non-interest income	**170**	189	(10)	**320**	370	(14)
Total net revenue	**1,601**	1,667	(4)	**3,184**	3,326	(4)
Provision for credit losses	**143**	67	113	**283**	242	17
Non-interest expense	**938**	910	3	**1,868**	1,800	4
Income from continuing operations before income taxes	**520**	690	(25)	**1,033**	1,284	(20)
Income tax provision	**186**	246	(24)	**369**	457	(19)
Income from continuing operations, net of tax	**$ 334**	$ 444	(25)	**$ 664**	$ 827	(20)
Selected performance metrics:						
Average loans held for investment:[1]						
Auto	**$ 33,972**	$ 28,677	18	**$ 33,184**	$ 28,080	18
Home loan	**33,299**	40,532	(18)	**33,969**	41,771	(19)
Retail banking	**3,613**	3,721	(3)	**3,621**	3,753	(4)
Total consumer banking	**$ 70,884**	$ 72,930	(3)	**$ 70,774**	$ 73,604	(4)
Average yield on loans held for investment[2]	**6.22%**	5.99%	23 bps	**6.20%**	5.96%	24 bps
Average deposits	**$ 169,694**	$ 170,733	(1) %	**$ 169,188**	$ 170,910	(1) %
Average deposit interest rate	**0.57%**	0.64%	(7) bps	**0.57%**	0.64%	(7) bps
Core deposit intangible amortization	**$ 28**	$ 35	(20) %	**$ 58**	$ 72	(19) %
Net charge-offs	**122**	110	11	**270**	253	7
Net charge-off rate	**0.69%**	0.60%	9 bps	**0.76%**	0.69%	7 bps
Net charge-off rate (excluding Acquired Loans)	**1.09**	1.08	1	**1.23**	1.27	(4)

Auto loan originations	**$**	**5,376**	$	4,525	19	%	**$**	**10,103**	$	8,314	22	%

(Dollars in millions)		**June 30, 2014**		**December 31, 2013**	**Change**	
Selected period-end data:						
Loans held for investment:[1]						
Auto	**$**	**34,792**	$	31,857	9	%
Home loan		**32,644**		35,282	(7)	
Retail banking		**3,626**		3,623		
Total consumer banking	**$**	**71,062**	$	70,762		
30+ day performing delinquency rate		**2.91%**		3.20%	(29)	bps
30+ day performing delinquency rate (excluding Acquired Loans)[3]		**4.56**		5.32	(76)	
30+ day delinquency rate		**3.49**		3.89	(40)	
30+ day delinquency rate (excluding Acquired Loans)[3]		**5.47**		6.47	(100)	
Nonperforming loans rate		**0.75**		0.86	(11)	
Nonperforming loans rate (excluding Acquired Loans)[3] .		**1.17**		1.44	(27)	
Nonperforming asset rate[4]		**1.01**		1.12	(11)	
Nonperforming asset rate (excluding Acquired Loans)[3]		**1.57**		1.86	(29)	
Allowance for loan and lease losses	**$**	**765**	$	752	2	%
Allowance coverage ratio[5]		**1.08%**		1.06%	2	bps
Deposits	**$**	**169,153**	$	167,652	1	%
Loans serviced for others		**6,944**		7,665	(9)	

(1) Includes Acquired Loans with carrying values of $25.8 billion and $28.2 billion as of June 30, 2014 and December 31, 2013, respectively. The average balance of Consumer Banking loans held for investment, excluding Acquired Loans, was $44.7 billion and $40.2 billion in the second quarter of 2014 and 2013, respectively, and $43.9 billion and $39.7 billion in the first six months 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 the 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 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 Consumer Banking business for the second quarter and first six months of 2014, compared with the second quarter and first six months of 2013, and changes in financial condition and credit performance between June 30, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $47 million, or 3%, in the second quarter of 2014 from the second quarter of 2013, to $1.4 billion, and by $92 million, or 3%, in the first six months of 2014 from the first six months of 2013, to $2.9 billion. The decrease in net interest income was primarily attributable to compression in deposit spreads in retail banking and lower net interest income due to the run-off in the acquired home loans portfolio, partially offset by higher net interest income generated by growth in our auto loans portfolio.

Consumer Banking yields increased in both the second quarter and first six months of 2014 to 6.2%, as compared to 6.0% in both the second quarter and first six months of 2013. This increase was driven by changes in the product mix in Consumer Banking as a result of growth in our auto loans portfolio and the 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 8.8% in the second quarter of 2014 as compared to 10.0% in the second quarter of 2013, and decreased to 8.9% in the first six months of 2014, as compared to 10.1% in the first six months of 2013. This decrease was primarily attributable to a shift in the credit quality mix of our auto loans portfolio and increased competition in the auto business. The average yield on home loans was 3.7% in both the second quarter and the first six months of 2014, compared to 3.2% in both the second quarter and the first six months of 2013. The higher yield in the home loans portfolio was 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 $19 million, or 10%, in the second quarter of 2014 from the second quarter of 2013, to $170 million, and by $50 million, or 14%, in the first six months of 2014 from the first six months of 2013, to $320 million, primarily driven by a higher provision for representation and warranty losses in our home loans portfolio related to our continuing operations in the first quarter of 2014 and a gain on the sale of certain of our mortgage servicing rights (MSR) in the second quarter of 2013.

Provision for Credit Losses: The provision for credit losses increased by $76 million, or 113%, in the second quarter of 2014 from the second quarter of 2013, to $143 million, driven by a larger allowance build due to the growth in our auto loans portfolio and smaller allowance releases attributable to our home loans portfolio. The provision for credit losses increased by $41 million, or 17%, in the first six months of 2014 from the first six months of 2013, to $283 million, driven by higher charge-offs and smaller allowance releases.

Non-Interest Expense: Non-interest expense increased by $28 million, or 3%, in the second quarter of 2014 from the second quarter of 2013, to $938 million and by $68 million, or 4%, in the first six months of 2014 from the first six months of 2013, to $1.9 billion. The increase was largely due to the growth in our auto loans portfolio and to a smaller degree, 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 held for investment increased by $300 million, or less than 1%, in the first six months of 2014 to $71.1 billion as of June 30, 2014 from $70.8 billion as of December 31, 2013, primarily due to the growth in the auto loans portfolio, partially offset by the run-off of our acquired home loans portfolio.

Deposits: Period-end deposits increased by $1.5 billion, or 1%, in the first six months of 2014 to $169.2 billion as of June 30, 2014, from $167.7 billion as of December 31, 2013, driven by deposit growth in our Consumer Banking business.

Charge-off and Delinquency Statistics: The reported net charge-off rate increased by 9 basis points to 0.69% in the second quarter of 2014 from 0.60% in the second quarter of 2013, and increased by 7 basis points to 0.76% in the first six months of 2014 from 0.69% in the first six months of 2013. The 30+ day delinquency rate decreased to 3.49% as of June 30, 2014, from 3.89% as of December 31, 2013. The increase in the net charge-off rate reflected a mix shift toward auto loans (which typically carry higher charge-off rates than our home loans portfolio), as home loans run off.

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, equipment, professional services, communications and data processing expenses, as well as marketing expenses.

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 $171 million and $308 million in the second quarter and first six months of 2014, respectively, compared with net income from continuing operations of $181 million and $374 million in the second quarter and first six months of 2013, respectively.

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]

	Three Months Ended June 30,				Six Months Ended June 30,			
(Dollars in millions)	**2014**	2013	**Change**		**2014**	**2013**	**Change**	
Selected income statement data:								
Net interest income	**$ 436**	$ 402	8	%	**$ 857**	$ 803	7	%
Non-interest income	**109**	93	17		**196**	177	11	
Total net revenue[2]	**545**	495	10		**1,053**	980	7	
Provision (benefit) for credit losses	**12**	(14)	**		**52**	(49)	**	
Non-interest expense	**267**	228	17		**522**	449	16	
Income from continuing operations before income taxes	**266**	281	(5)		**479**	580	(17)	
Income tax provision	**95**	100	(5)		**171**	206	(17)	
Income from continuing operations, net of tax	**$ 171**	$ 181	(6)		**$ 308**	$ 374	(18)	
Selected performance metrics:								
Average loans held for investment[3]:								
Commercial and multifamily real estate	**$ 21,484**	$ 18,084	19		**$ 21,224**	$ 17,771	19	
Commercial and industrial	**24,611**	20,332	21		**24,079**	20,142	20	
Total commercial lending	**46,095**	38,416	20		**45,303**	37,913	19	
Small-ticket commercial real estate	**896**	1,096	(18)		**914**	1,134	(19)	
Total commercial banking	**$ 46,991**	$ 39,512	19		**$ 46,217**	$ 39,047	18	
Average yield on loans held for investment[2]	**3.50%**	3.84%	(34)	bps	**3.48%**	3.87%	(39)	bps
Average deposits	**$ 31,238**	$ 30,746	2	%	**$ 31,431**	$ 30,542	3	%
Average deposit interest rate	**0.24%**	0.26%	(2)	bps	**0.24%**	0.27%	(3)	bps
Core deposit intangible amortization	**$ 5**	$ 8	(38)	%	**$ 11**	$ 15	(27)	%
Net charge-offs	**3**	4	(25)		**7**	11	(36)	
Net charge-off rate	**0.03%**	0.04%	(1)	bps	**0.03%**	0.06%	(3)	bps

(Dollars in millions)	June 30, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment[3]:			
Commercial and multifamily real estate	**$ 22,040**	$ 20,750	6 %
Commercial and industrial	**25,402**	23,309	9
Total commercial lending	**47,442**	44,059	8
Small-ticket commercial real estate	**879**	952	(8)
Total commercial banking	**$ 48,321**	$ 45,011	7
Nonperforming loans rate	**0.38%**	0.33%	5 bps
Nonperforming asset rate[4]	**0.41**	0.37	4
Allowance for loan and lease losses	**$ 368**	$ 338	9 %
Allowance coverage ratio[5]	**0.76%**	0.75%	1 bps
Deposits	**$ 31,440**	$ 30,567	3 %
Loans serviced for others	**11,411**	10,786	6

** Change is 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) The average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. 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%.

(3) Includes Acquired Loans with carrying value of $217 million and $262 million as of June 30, 2014 and December 31, 2013, respectively. The average balance of commercial banking loans held for investment, excluding Acquired Loans, was $46.8 billion and $39.2 billion in the second quarter of 2014 and 2013, respectively, and $46.0 billion and $38.7 billion in the first six months of 2014 and 2013, respectively.

(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 second quarter and first six months of 2014, compared with the second quarter and first six months of 2013, and changes in financial condition and credit performance between June 30, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income increased by $34 million, or 8%, in the second quarter of 2014 from the second quarter of 2013, to $436 million, and by $54 million, or 7%, in the first six months of 2014 from the first six months of 2013, to $857 million. The increase was driven by growth in commercial loans, partially offset by lower loan yields driven by market and competitive pressures.

Non-Interest Income: Non-interest income increased by $16 million, or 17%, in the second quarter of 2014 from the second quarter of 2013, to $109 million, and by $19 million, or 11%, in the first six months of 2014 from the first six months of 2013, to $196 million, primarily driven by increased revenue related to fee-based services and products and the Beech Street Capital acquisition.

Provision for Credit Losses: The provision for credit losses increased by $26 million in the second quarter of 2014 to $12 million from a benefit of $14 million in the second quarter of 2013, and by $101 million in the first six months of 2014 to $52 million from a benefit of $49 million in the first six months of 2013. The increase was primarily driven by growth in the portfolio. The increase in allowance for loan and lease losses and reserve for unfunded lending commitments was $9 million and $45 million in the second quarter and first six months of 2014, respectively, compared with a release of $20 million and $60 million in the second quarter and first six months of 2013, respectively.

Non-Interest Expense: Non-interest expense increased by $39 million, or 17%, in the second quarter of 2014 from the second quarter of 2013, to $267 million, and by $73 million, or 16%, in the first six months of 2014 from the first six months of 2013, to $522 million, driven by operating expenses associated with continued investments in business growth and the Beech Street Capital acquisition.

Loans Held for Investment: Period-end loans held for investment increased by $3.3 billion, or 7%, to $48.3 billion as of June 30, 2014 from $45.0 billion as of December 31, 2013. The increase was driven by loan growth in the commercial and industrial and commercial and multifamily real estate businesses.

Deposits: Period-end deposits increased by $873 million, or 3%, to $31.4 billion as of June 30, 2014, from $30.6 billion as of December 31, 2013, driven by our strategy to deepen and expand relationships with commercial customers.

Charge-off Statistics: The net charge-off rate was 0.03% in both the second quarter and first six months of 2014, compared to 0.04% and 0.06% in the second quarter and first six months of 2013, respectively. The nonperforming loans rate increased to 0.38% as of June 30, 2014, from 0.33% as of December 31, 2013. The continued strength in the credit metrics in our Commercial Banking business reflects 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

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investment securities portfolio and certain trading activities. Other 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 losses related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Net profit from continuing operations recorded in Other was $31 million and $20 million in the second quarter and first six months of 2014, respectively, compared with a net loss from continuing operations of $117 million and $245 million in the second quarter and first six months of 2013, respectively. The shift from a net loss to a net profit was primarily due to higher net interest income driven by higher interest rates, lower funding costs, the 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.

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

Table 10: Other Results[(1)]

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2014**	**2013**	**Change**	**2014**	**2013**	**Change**
Selected income statement data:						
Net interest expense[(2)]	**$ (13)**	$ (131)	(90)%	**$ (42)**	$ (270)	(84)%
Non-interest income	**35**	(29)	**	**33**	(134)	**
Total net revenue (loss)	**22**	(160)	**	**(9)**	(404)	(98)
Provision (benefit) for credit losses		(4)	**	**(3)**	(2)	50
Non-interest expense	**55**	61	(10)	**76**	93	(18)
Loss from continuing operations before income taxes	**(33)**	(217)	(85)	**(82)**	(495)	(83)
Income tax benefit	**(64)**	(100)	(36)	**(102)**	(250)	(59)
Profit (loss) from continuing operations, net of tax	**$ 31**	$ (117)	**	**$ 20**	$ (245)	**

** Change is 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) 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, with offsetting reclassifications within the Other category, calculated assuming an effective tax rate approximately equal to our federal statutory tax rate of 35%.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets of $298.3 billion as of June 30, 2014, increased by $1.4 billion, from $296.9 billion, as of December 31, 2013. Total liabilities of $254.5 billion as of June 30, 2014, decreased by $799 million, from $255.3 billion as of December 31, 2013. Stockholders equity increased by $2.2 billion, to $43.8 billion as of June 30, 2014. The increase in stockholders equity was primarily attributable to our net income of $2.3 billion for the first six months of 2014.

Following is a discussion of material changes in the major components of our assets and liabilities during the first six months 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 and non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS); other asset-backed securities (ABS) and othe 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 79% and 77% of our total investment securities portfolio as of June 30, 2014 and December 31, 2013, respectively.

Our investment portfolio includes securities available for sale and 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 on our consolidated balance sheets at fair value with unrealized gains and losses recorded, net of tax, as a component of accumulated other comprehensive income (AOCI). We report securities held to maturity on our consolidated balance sheets at carrying value. Carrying value generally equals 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 six months of 2014, the fair value of our investment portfolio increased by $1.5 billion, or 3% from $61.0 billion as of December 31, 2013, to $62.5 billion as of June 30, 2014. This increase was primarily driven by lower interest rates.

We had gross unrealized gains of $965 million and gross unrealized losses of $299 million on available-for sale investment securities as of June 30, 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 six months of 2014 was primarily driven by lower interest rates in the second quarter of 2014. Of the $299 million in gross unrealized losses as of June 30, 2014, $276 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 June 30, 2014 and December 31, 2013.

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Table 11: Investment Securities

	June 30, 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	**$ 1,221**	**$ 1,223**	$ 831	$ 833
U.S. Agency debt obligations	**1**	**1**	1	1
Corporate debt securities guaranteed by U.S. government agencies	**1,120**	**1,092**	1,282	1,234
RMBS:				
Agency	**21,779**	**21,948**	21,572	21,479
Non-agency	**3,077**	**3,579**	3,165	3,600
Total RMBS	**24,856**	**25,527**	24,737	25,079
CMBS:				
Agency	**4,041**	**4,012**	4,262	4,198
Non-agency	**1,803**	**1,808**	1,854	1,808
Total CMBS	**5,844**	**5,820**	6,116	6,006
Other ABS[1]	**5,972**	**6,022**	7,123	7,136
Other securities[2]	**1,433**	**1,428**	1,542	1,511
Total investment securities available for sale	**$ 40,447**	**$ 41,113**	$ 41,632	$ 41,800

(Dollars in millions)	**Carrying Value**	**Fair Value**	**Carrying Value**	**Fair Value**
Investment securities held to maturity				
Agency RMBS	**$ 18,852**	**$ 19,498**	$ 17,443	$ 17,485
Agency CMBS	**1,836**	**1,907**	1,689	1,700
Total investment securities held to maturity	**$ 20,688**	**$ 21,405**	$ 19,132	$ 19,185

(1) ABS collateralized by credit card loans constituted approximately 65% of the other ABS portfolio as of both June 30, 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 June 30, 2014, and December 31, 2013, respectively. Approximately 89% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of June 30, 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 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 June 30, 2014 and December 31, 2013, respectively, while approximately 6% and 5% was below investment grade as of June 30, 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 following rating agencies: Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch).

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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 June 30, 2014 and December 31, 2013.

Table 12: Non-Agency Investment Securities Credit Ratings

	June 30, 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	**$ 3,077**	**%**	**4%**	**96%**	$ 3,165	%	4%	96%
Non-agency CMBS	**1,803**	**96**		**4**	1,854	99	1	
Other asset-backed securities	**5,972**	**89**	**10**	**1**	7,123	87	12	1
Other securities[1]	**1,433**	**3**	**89**	**8**	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 held for investment (HFI) consists of unrestricted loans and restricted loans held in our securitization trusts. Table 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of June 30, 2014 and December 31, 2013.

Table 13: Net Loans Held for Investment

	June 30, 2014			December 31, 2013		
(Dollars in millions)	**Loans**	**Allowance**	**Net Loans**	**Loans**	**Allowance**	**Net Loans**
Credit Card.	**$ 79,018**	**$ 2,858**	**$ 76,160**	$ 81,305	$ 3,214	$ 78,091
Consumer Banking.	**71,062**	**765**	**70,297**	70,762	752	70,010
Commercial Banking	**48,321**	**368**	**47,953**	45,011	338	44,673
Other	**127**	**7**	**120**	121	11	110
Total	**$ 198,528**	**$ 3,998**	**$ 194,530**	$ 197,199	$ 4,315	$ 192,884

Period-end loans held for investment increased by $1.3 billion, or 1%, in the first six months of 2014. The increase was due to commercial and industrial and commercial and multifamily real estate loan growth in our Commercial Banking business, and continued strong auto loan originations outpacing the run-off of the acquired home loans portfolio in our Consumer Banking business. Overall, there was a decline in our credit card loan portfolio primarily due to seasonality in the first quarter, partially offset by loan growth in the second quarter in our Credit Card 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 $709 million as of June 30, 2014, from $218 million as of December 31, 2013. The increase was primarily driven by higher originations and timing of sales of loans.

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Customer Deposits

Our customer deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total customer deposits increased by $1.4 billion to $205.9 billion as of June 30, 2014, from $204.5 billion as of December 31, 2013. The increase in deposits was driven by growth in our Consumer and Commercial Banking businesses, 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 $279 million during the first six months of 2014, to $10.0 billion as of June 30, 2014, from $10.3 billion as of December 31, 2013. The decrease was driven by maturities of $2.8 billion, partially offset by the issuances of $2.5 billion of credit card securitization debt during the first six months of 2014. We provide additional information on our borrowings below in Liquidity Risk Profile.

Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and Federal Home Loan Banks (FHLB) advances, totaled $29.1 billion as of June 30, 2014, of which $10.5 billion represented short-term borrowings and $18.6 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 debt.

The decrease in other debt of $1.3 billion in the first six months of 2014 was primarily attributable to net maturities of $5.9 billion of FHLB advances and the maturity of $1.4 billion unsecured senior notes, partially offset by the issuance of $4.8 billion of unsecured senior notes as well as a $1.1 billion increase in federal funds purchased and securities loaned or sold under agreements to repurchase. We provide additional information on our borrowings below in Liquidity Risk Profile and in Note 8 Deposits and Borrowings.

Potential Mortgage Representation and Warranty Liabilities

We acquired three subsidiaries that originated residential mortgage loans and sold these loans 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 on 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 on 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 $1.0 billion as of June 30, 2014, compared with $1.2 billion as of December 31, 2013.

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

Table 14: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Representation and warranty repurchase reserve, beginning of period[1]	**$ 1,128**	$ 994	**$ 1,172**	$ 899
Provision (benefit) for mortgage representation and warranty losses:				
Recorded in continuing operations	**(29)**	(4)	**(15)**	(14)
Recorded in discontinued operations	**11**	187	**(36)**	294
Total provision (benefit) for mortgage representation and warranty losses	**(18)**	183	**(51)**	280
Net realized losses	**(98)**	(21)	**(109)**	(23)
Representation and warranty repurchase reserve, end of period[1]	**$ 1,012**	$ 1,156	**$ 1,012**	$ 1,156

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

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 June 30, 2014, is approximately $2.5 billion, a decline from our estimate of $2.6 billion as of December 31, 2013.

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 on our 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 loans 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 \$3.4 billion and \$464 million, respectively, as of June 30, 2014, and our maximum exposure to loss was \$4.0 billion as of June 30, 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 such as internal stress testing and economic capital. 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 minimum capital requirements.

In July 2013, the Federal Reserve, the Office of the Comptroller of the Currency (OCC) and the Federal Deposit Issuance Corporation (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. 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, and the advanced approaches capital rules (Advanced Approaches), based upon the framework originally promulgated as a result of the Basel II accord. The Final Rule amended both the Basel I and Advanced Approaches frameworks, establishing a new common equity Tier 1 capital requirement and setting higher minimum capital ratio requirements. 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.

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. 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. Certain provisions of the Final Rule began to take effect on January 1, 2014 for Advanced Approaches banking organizations, including the Company. The Company will be subject to a parallel run under Advanced Approaches, expected to begin January 1, 2015, during which it will calculate capital ratios under both the Basel III Standardized Approach and the 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. Therefore, the first quarter of 2016 is the earliest possible date on which the Company would use the Basel III Advanced Approaches framework in calculating 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 possible that our parallel run will last longer than the four quarter minimum. Under the Dodd-Frank Act and the Final Rule, organizations subject to Basel III Advanced Approaches may not hold less capital than would be required under the Basel III Standardized Approach. Therefore, even after we exit parallel run, we will continue to calculate regulatory capital and risk-weighted assets under the Basel III Standardized Approach.

As of January 1, 2014, the new minimum risk-based and leverage 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 8.0%, and a Tier 1 leverage capital ratio of at least 4.0%. 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 the Tier 1 leverage capital ratio will not change from 2014 to 2015.

Insured depository institutions also are 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 6.0%, a total risk-based capital ratio of at least 10.0%, a Tier 1 leverage capital ratio of at least 5.0%, and is not subject to any written agreement, order, capital directive, or prompt corrective action directive issued

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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, those 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 8.0%, 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 the Tier 1 leverage capital ratio 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 (TCE 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 June 30, 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, as required under the Final Rule. Beginning on January 1, 2015, we will use the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

Table 15: Capital Ratios[1][2]

	June 30, 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 capital[3]	**12.72%**	**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]	**13.31%**	**5.50%**	**6.00%**	12.57	4.00%	6.00%
Total risk-based capital[6]	**15.36**	**8.00**	**10.00**	14.69	8.00	10.00
Tier 1 leverage[7]	**10.70**	**4.00**	**N/A**	10.06	4.00	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital[3]	**11.70%**	**4.00%**	**N/A**	N/A	N/A	N/A

Tier 1 risk-based capital[5]	**11.70**	**5.50**	**6.00%**	11.47%	4.00%	6.00%
Total risk-based capital[6]	**15.16**	**8.00**	**10.00**	14.90	8.00	10.00
Tier 1 leverage[7]	**10.11**	**4.00**	**5.00**	10.21	4.00	5.00
Capital One, N.A.:						
Common equity Tier 1 capital[3]	**13.09%**	**4.00%**	**N/A**	N/A	N/A	N/A
Tier 1 risk-based capital[5]	**13.09**	**5.50**	**6.00%**	12.67%	4.00%	6.00%
Total risk-based capital[6]	**14.14**	**8.00**	**10.00**	13.76	8.00	10.00
Tier 1 leverage[7]	**9.42**	**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 are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, as of June 30, 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) Common equity Tier 1 capital ratio is a regulatory capital measure under Basel III 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, subject to transition provisions, was 12.72% as of June 30, 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. For purposes of our capital plan, for which we received the Federal Reserve s non-objection on March 26, 2014, we were assessed on our ability throughout the 2014 CCAR Cycle to maintain, among other measures, a Tier 1 common ratio of 5.0% on a pro forma basis under expected and stressful conditions. We estimate that our Tier 1 common ratio, as calculated under Basel I, was approximately 12.7% as of June 30, 2014. Capital One Financial Corporation exceeded U.S. federal banking agencies minimum capital requirements and the Banks exceeded minimum regulatory requirements and were well-capitalized under PCA requirements as of June 30, 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 provisions. The Basel III Standardized Approach common equity Tier 1 capital requirement under the Final Rule includes additional adjustments and deductions not included in the Tier 1 common capital requirement calculated under Basel I, such as the inclusion of the unrealized gains and losses on available-for-sale investment securities included in AOCI and adjustments related to intangibles. These adjustments are phased-in at 20% for 2014, 40% for 2015, 60% for 2016, 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 risk-based regulatory capital ratios in 2014. However, beginning on January 1, 2015, we will use the Basel III Standardized Approach for calculating our risk-weighted assets in our risk-based regulatory capital ratios.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of June 30, 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 June 30, 2014, calculated under the 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.

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

(Dollars in millions)		
Common Equity Tier 1 Capital under Basel III Standardized as of June 30, 2014	**$**	**28,774**
Adjustments related to AOCI[1]		**(378)**
Adjustments related to intangibles[1]		**(1,157)**
Other adjustments[1]		**(1)**
Estimated Common Equity Tier 1 Capital under Fully Phased-In Basel III Standardized	**$**	**27,238**
Risk-weighted assets under Basel I	**$**	**226,172**
Adjustments for Basel III Standardized[2]		**8,017**
Estimated risk-weighted assets under Basel III Standardized	**$**	**234,189**
Estimated Common Equity Tier 1 Capital Ratio under Fully Phased-In Basel III Standardized[3]		**11.6%**

(1) Assumes adjustments are fully phased-in.

(2) Adjustments to the Basel I approach to calculating risk-weighted assets include higher risk weights for exposures 90 days or more past due or in nonaccrual, 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.

(3) 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.

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 Approach 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. 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 that contains a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the fourth quarter of the calendar year prior to the submission of the capital plan (CCAR cycle). The bank holding company may take the capital actions in its capital plan if the Federal Reserve provides a non-objection to the plan. The Federal Reserve s objection or non-objection applies specifically to capital actions during the four quarters beginning with the second quarter of the second calendar year in the planning horizon. 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 June 12, 2014, the Federal Reserve and OCC proposed changes to their regulations governing the CCAR and stress testing processes. For additional information on the Proposed Rules, see MD&A Supervision and Regulation.

As a result of the Federal Reserve s non-objection to our 2014 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.

Equity Offerings and Transactions

On June 12, 2014, the Company issued and sold 20,000,000 depositary shares (Depositary Shares), each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C, $0.01 par value, with a liquidation preference of $25 per Depositary Share (equivalent to $1,000 per share of Series C Preferred Stock) (the Series C Preferred Stock). Dividends will accrue on the Series C Preferred Stock at a rate of 6.25% per annum, payable quarterly in arrears. The net proceeds of the offering of the 20,000,000 Depositary Shares were approximately $484 million, after deducting underwriting commissions and offering expenses. Under the terms of the Series C Preferred Stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series C Preferred Stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the Series C Preferred Stock for the immediately preceding dividend period.

Dividend Policy and Stock Purchases

We paid common stock dividends of $0.30 per share in the second quarter of 2014. During the second quarter, we also 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).

On July 31, 2014, our Board of Directors declared a quarterly dividend of $0.30 per share, payable August 21, 2014 and quarterly dividends on our Series B Preferred Stock and Series C Preferred Stock payable on September 2nd. Based on these declarations, the company will pay approximately $169 million in common equity dividends and approximately $20 million in total preferred dividends in Q3 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 $1.3 billion and $210 million, respectively, as of June 30, 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 disclosed in Capital Planning and Regulatory Stress Testing above, we plan to repurchase up to $2.5 billion of common stock within the CCAR 2014 cycle, through the 2014 Stock Repurchase Program approved by our Board of Directors. Through the end of the second quarter of 2014, we have repurchased approximately $1.0 billion of shares as a part of this program.

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
- Enable with 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, including restricted loans (underlying our consolidated securitization trusts), and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, by portofilio segment, as of June 30, 2014 and December 31, 2013. Table 17 and the

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credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $709 million and $218 million as of June 30, 2014, and December 31, 2013, respectively.

Table 17: Loan Portfolio Composition

	June 30, 2014				December 31, 2013			
(Dollars in millions)	Loans	Acquired Loans	Total	% of Total	Loans	Acquired Loans	Total	% of Total
Credit Card:								
Domestic credit card[1]	**$ 71,128**	**$ 37**	**$ 71,165**	**35.8%**	$ 73,192	$ 63	$ 73,255	37.1%
International credit card	**7,853**		**7,853**	**4.0**	8,050		8,050	4.1
Total credit card	**78,981**	**37**	**79,018**	**39.8**	81,242	63	81,305	41.2
Consumer Banking:								
Auto	**34,790**	**2**	**34,792**	**17.5**	31,852	5	31,857	16.2
Home loan	**6,930**	**25,714**	**32,644**	**16.5**	7,098	28,184	35,282	17.9
Retail banking	**3,577**	**49**	**3,626**	**1.8**	3,587	36	3,623	1.8
Total consumer banking	**45,297**	**25,765**	**71,062**	**35.8**	42,537	28,225	70,762	35.9
Commercial Banking:[2]								
Commercial and multifamily real estate	**21,975**	**65**	**22,040**	**11.1**	20,666	84	20,750	10.5
Commercial and industrial	**25,250**	**152**	**25,402**	**12.8**	23,131	178	23,309	11.8
Total commercial lending	**47,225**	**217**	**47,442**	**23.9**	43,797	262	44,059	22.3
Small-ticket commercial real estate	**879**		**879**	**0.4**	952		952	0.5
Total commercial banking	**48,104**	**217**	**48,321**	**24.3**	44,749	262	45,011	22.8
Other:								
Other loans	**127**		**127**	**0.1**	121		121	0.1

Total loans held for investment	**$ 172,509**	**$ 26,019**	**$ 198,528**	**100.0%**	$ 168,649	$ 28,550	$ 197,199	100.0%

(1) Includes installment loans of $205 million and $323 million as of June 30, 2014 and December 31, 2013, respectively.

(2) Includes construction loans and land development loans totaling $2.1 billion and $2.0 billion as of June 30, 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 rates 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. Based on our most recent data, we estimate that approximately one-third of our Domestic Card portfolio had credit scores equal to or below 660 or no score, based on loan balances as of June 30, 2014, consistent with the proportion of the Domestic Card portfolio with credit scores equal to or below 660 or no score as of December 31, 2013.

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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. 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 but 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.

Table 18 presents our 30+ day performing and total 30+ day delinquency rates, by portfolio segment, as of June 30, 2014 and December 31, 2013. It also presents the adjusted rates, which exclude Acquired Loans from the denominator as they are accounted for based on cash flows expected to be collected over the life of the loans.

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Table 18: 30+ Day Delinquencies

	June 30, 2014						December 31, 2013				
	30+ Day Performing			30+ Day Total			30+ Day Performing			30+ Day To	
illions)	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]
:											
dit card	$ 2,013	2.83%	2.83%	$ 2,013	2.83%	2.83%	$ 2,514	3.43%	3.43%	$ 2,514	3.43
credit	267	3.40	3.40	330	4.20	4.20	299	3.71	3.71	367	4.56
ard	2,280	2.89	2.89	2,343	2.97	2.97	2,813	3.46	3.46	2,881	3.54
	2,006	5.77	5.77	2,156	6.20	6.20	2,181	6.85	6.85	2,375	7.46
	42	0.13	0.61	287	0.88	4.14	55	0.16	0.78	323	0.91
g	17	0.48	0.48	36	0.98	1.00	25	0.69	0.70	52	1.44
ner	2,065	2.91	4.56	2,479	3.49	5.47	2,261	3.20	5.32	2,750	3.89
and eal	61	0.27	0.27	95	0.43	0.43	29	0.14	0.14	64	0.31
and	36	0.14	0.14	82	0.32	0.32	73	0.31	0.32	108	0.46
rcial	97	0.20	0.20	177	0.37	0.38	102	0.23	0.23	172	0.39
eal	1	0.15	0.15	12	1.30	1.30	8	0.79	0.79	11	1.17
rcial	98	0.20	0.20	189	0.39	0.39	110	0.24	0.25	183	0.41
	4	2.91	2.91	16	12.43	12.43	4	3.32	3.32	19	15.72
	$ 4,447	2.24	2.58	$ 5,027	2.53	2.91	$ 5,188	2.63	3.08	$ 5,833	2.96

(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 from denominator.

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

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

	June 30, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**% of Total Loans[1]**	**Amount**	**% of Total Loans[1]**
Total loan portfolio	**$ 198,528**	**100.00%**	$ 197,199	100.00%
Delinquency status:				
30 59 days	**$ 2,380**	**1.20**	$ 2,617	1.33
60 89 days	**1,154**	**0.58**	1,344	0.68
90 + days	**1,493**	**0.75**	1,872	0.95
Total	**$ 5,027**	**2.53%**	$ 5,833	2.96%
Geographic region:				
Domestic	**$ 4,697**	**2.36%**	$ 5,466	2.77%
International	**330**	**0.17**	367	0.19
Total	**$ 5,027**	**2.53%**	$ 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 June 30, 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 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

	June 30, 2014		December 31, 2013	
(Dollars in millions)	**Amount**	**% of Total Loans[1]**	**Amount**	**% of Total Loans[1]**
Loan category:				
Credit card	**$ 964**	**1.22%**	$ 1,283	1.58%
Consumer banking	**1**	**0.00**	2	0.00
Commercial banking	**5**	**0.01**	6	0.01

Total	**$**	**970**	**0.49**	$	1,291	0.65
Geographic region:						
Domestic	**$**	**889**	**0.47**	$	1,195	0.63
International		**81**	**1.04**		96	1.19
Total	**$**	**970**	**0.49**	$	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.

Nonperforming Loans and 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

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generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been modified 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 portfolio segment, and other nonperforming assets, as of June 30, 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)

	June 30, 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	**$ 81**	**1.03%**	$ 88	1.10%
Total credit card	**81**	**0.10**	88	0.11
Consumer Banking:				
Auto	**151**	**0.43**	194	0.61
Home loan(2)	**351**	**1.07**	376	1.06
Retail banking	**29**	**0.79**	41	1.13
Total consumer banking(2)	**531**	**0.75**	611	0.86
Commercial Banking:				
Commercial and multifamily real estate	**64**	**0.29**	52	0.25
Commercial and industrial	**105**	**0.41**	93	0.40
Total commercial lending	**169**	**0.36**	145	0.33
Small-ticket commercial real estate	**12**	**1.40**	4	0.41
Total commercial banking	**181**	**0.38**	149	0.33
Other:				
Other loans	**16**	**12.74**	19	15.83
Total nonperforming loans held for investment(2)(3)	**$ 809**	**0.41**	$ 867	0.44
Other nonperforming assets(4):				
Foreclosed property(5)	**$ 117**	**0.06**	$ 113	0.06
Other assets(6)	**158**	**0.08**	160	0.08

Total other nonperforming assets	**275**	**0.14**	273	0.14
Total nonperforming assets[7]	**$ 1,084**	**0.55**	$ 1,140	0.58

(1) We recognized interest income for loans classified as nonperforming of $12 million and $17 million in the first six months of 2014 and 2013, respectively. Interest income foregone related to nonperforming loans was $29 million and $34 million in the first six months 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.

(2) The nonperforming loan ratio, excluding Acquired Loans impact for our home loans portfolio, total consumer banking, and total nonperforming loans held for investment was 5.06%, 1.17%, and 0.47%, respectively, as of June 30, 2014, compared with 5.29%, 1.44%, and 0.51%, respectively, as of December 31, 2013.

(3) Nonperforming loans as a percentage of total loans held for investment, excluding the impact of domestic credit card loans, was 0.63% and 0.70% as of June 30, 2014 and December 31, 2013, respectively.

(4) The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and other nonperforming assets.

(5) Includes foreclosed properties related to Acquired Loans of $71 million and $68 million as of June 30, 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.

(7) The nonperforming asset ratio, excluding the impact of Acquired Loans was 0.59% and 0.63% as of June 30, 2014 and December 31, 2013, respectively.

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included on 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 portfolio segment, in the second quarter and first six months of 2014 and 2013.

Table 22: Net Charge-Offs

	Three Months Ended June 30,					
		2014			**2013**	
(Dollars in millions)	**Amount**	**Rate[(1)]**	**Adjusted Rate[(2)]**	**Amount**	**Rate[(1)]**	**Adjusted Rate[(2)]**
Credit Card:						
Domestic credit card	**$ 610**	**3.52%**	**3.52%**	$ 749	4.28%	4.29%
International credit card	**75**	**3.93**	**3.93**	101	5.08	5.08
Total credit card	**685**	**3.56**	**3.56**	850	4.36	4.37
Consumer Banking:						
Auto	**111**	**1.31**	**1.31**	92	1.28	1.28

Home loan	**5**	**0.05**	**0.25**	4	0.03	0.16
Retail banking	**6**	**0.70**	**0.71**	14	1.50	1.52
Total consumer banking	**122**	**0.69**	**1.09**	110	0.60	1.08
Commercial Banking:						
Commercial and multifamily real estate	**(1)**	**0.00**	**0.00**	1	0.04	0.04
Commercial and industrial	**2**	**0.04**	**0.04**	2	0.03	0.03
Total commercial lending	**1**	**0.02**	**0.02**	3	0.03	0.03
Small-ticket commercial real estate	**2**	**0.61**	**0.61**	1	0.45	0.45
Total commercial banking	**3**	**0.03**	**0.03**	4	0.04	0.04
Other:						
Other loans	**2**	**2.18**	**2.18**	5	13.10	16.65
Total net charge-offs	**$ 812**	**1.67**	**1.93**	$ 969	2.03	2.46
Average loans held for investment	**$ 194,996**			$ 190,562		
Average loans held for investment (excluding Acquired Loans)	**168,505**			157,418		

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	Six Months Ended June 30,					
	2014			2013		
(Dollars in millions)	Amount	Rate[1]	Adjusted Rate[2]	Amount	Rate[1]	Adjusted Rate[2]
Credit Card:						
Domestic credit card	**$ 1,310**	**3.77%**	**3.77%**	$ 1,576	4.36%	4.37%
International credit card	**155**	**4.05**	**4.05**	196	4.83	4.83
Total credit card	**1,465**	**3.79**	**3.80**	1,772	4.41	4.41
Consumer Banking:						
Auto	**245**	**1.48**	**1.48**	214	1.52	1.52
Home loan	**10**	**0.06**	**0.27**	8	0.04	0.19
Retail banking	**15**	**0.82**	**0.83**	31	1.68	1.69
Total consumer banking	**270**	**0.76**	**1.23**	253	0.69	1.27
Commercial Banking:						
Commercial and multifamily real estate	**0**	**0.00**	**0.00**	2	0.03	0.03
Commercial and industrial	**4**	**0.03**	**0.03**	4	0.04	0.04
Total commercial lending	**4**	**0.02**	**0.02**	6	0.03	0.03
Small-ticket commercial real estate	**3**	**0.64**	**0.64**	5	0.94	0.94
Total commercial banking	**7**	**0.03**	**0.03**	11	0.06	0.06
Other:						
Other loans	**1**	**0.77**	**0.77**	12	13.83	17.58
Total net charge-offs	**$ 1,743**	**1.79**	**2.08**	$ 2,048	2.12	2.58
Average loans held for investment	**$ 194,362**			$ 193,265		
Average loans held for investment (excluding Acquired Loans)	**167,237**			158,840		

(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 total TDR loan balances as of June 30, 2014 and December 31, 2013. It excludes loan modifications that do not meet the definition of a TDR and Acquired Loans accounted for based on expected cash flows, which we track and report separately.

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Table 23: Loan Modifications and Restructurings

	June 30, 2014		December 31, 2013	
(Dollars in millions)	Amount	% of Total Modifications	Amount	% of Total Modifications
Modified and restructured loans:				
Credit card[1]	**$ 728**	**43.8%**	$ 780	46.4%
Auto	**375**	**22.6**	355	21.1
Home loan	**240**	**14.4**	244	14.5
Retail banking	**53**	**3.2**	64	3.8
Commercial banking	**265**	**16.0**	238	14.2
Total	**$ 1,661**	**100.0%**	$ 1,681	100.0%
Status of modified and restructured loans:				
Performing	**$ 1,240**	**74.7%**	$ 1,250	74.4%
Nonperforming	**421**	**25.3**	431	25.6
Total	**$ 1,661**	**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 majority of our credit card TDR loan modifications involve reducing 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.

Within the Consumer Banking business, the majority of our modified loans receive an extension, while a portion receive an interest rate reduction or principal reduction. Their impairment is determined using the present value of expected cash flows, or a collateral evaluation for auto and home loans that were charged down to fair value. In the Commercial Banking business, the majority of modified loans receive an extension, with a portion of these loans receiving an interest rate reduction. The impairment on modified commercial loans is generally determined based on the underlying collateral value. 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. 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 June 30, 2014, compared with $1.9 billion as of December 31, 2013. TDRs accounted for $1.7 billion of impaired loans as of both June 30, 2014 and December 31, 2013. We provide additional information on our impaired loans, including the allowance for loan and lease losses established for these loans, in Note 4 Loans and Note 5 Allowance for Loan and Lease Losses.

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Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management s best estimate of incurred loan and lease credit losses inherent in our held for investment portfolio as of each balance sheet date. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. 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 for loan and lease losses decreased by $317 million to $4.0 billion as of June 30, 2014, from $4.3 billion as of December 31, 2013, attributable to continued improvement in delinquency inventories, lower charge-offs in new originations and improved credit outlook. These were partially offset by a modest provision for allowance for loan and lease losses related to growth in the auto loans portfolio.

Table 24 presents changes in our allowance for loan and lease losses for the second quarter and first six months of 2014 and 2013, and details the provision for credit losses recognized on our consolidated statements of income, and charge-offs and recoveries by portfolio segment.

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Table 24: Allowance for Loan and Lease Losses Activity

(Dollars in millions)	Three Months Ended June 30, 2014	2013	Six Months Ended June 30, 2014	2013
Balance at beginning of period, as reported	**$ 4,098**	$ 4,606	**$ 4,315**	$ 5,156
Provision for credit losses[1]	**701**	778	**1,424**	1,613
Charge-offs:				
Credit Card:				
Domestic credit card	**(867)**	(1,033)	**(1,831)**	(2,152)
International credit card	**(128)**	(148)	**(259)**	(291)
Total credit card	**(995)**	(1,181)	**(2,090)**	(2,443)
Consumer Banking:				
Auto	**(183)**	(153)	**(388)**	(335)
Home loan	**(8)**	(5)	**(19)**	(12)
Retail banking	**(14)**	(19)	**(29)**	(44)
Total consumer banking	**(205)**	(177)	**(436)**	(391)
Commercial Banking:				
Commercial and multifamily real estate		(2)	**(2)**	(4)
Commercial and industrial	**(6)**	(6)	**(10)**	(10)
Total commercial lending	**(6)**	(8)	**(12)**	(14)
Small-ticket commercial real estate	**(2)**	(6)	**(3)**	(12)
Total commercial banking	**(8)**	(14)	**(15)**	(26)
Other loans	**(4)**	(7)	**(6)**	(15)
Total charge-offs	**(1,212)**	(1,379)	**(2,547)**	(2,875)
Recoveries:				
Credit Card:				
Domestic credit card	**257**	284	**521**	576
International credit card	**53**	47	**104**	95
Total credit card	**310**	331	**625**	671
Consumer Banking:				
Auto	**72**	61	**143**	121
Home loan	**3**	1	**9**	4
Retail banking	**8**	5	**14**	13
Total consumer banking	**83**	67	**166**	138

Commercial Banking:				
Commercial and multifamily real estate	**1**	1	**2**	2
Commercial and industrial	**4**	4	**6**	6
Total commercial lending	**5**	5	**8**	8
Small-ticket commercial real estate		5		7
Total commercial banking	**5**	10	**8**	15
Other:				
Other loans	**2**	2	**5**	3
Total recoveries	**400**	410	**804**	827
Net charge-offs	**(812)**	(969)	**(1,743)**	(2,048)
Other changes(2)	**11**	(8)	**2**	(314)
Balance at end of period	**$ 3,998**	$ 4,407	**$ 3,998**	$ 4,407
Allowance for loan and lease losses as a percentage of loans held for investment			**2.01%**	2.30%

(1) The total provision for credit losses reported on our consolidated statements of income consists of a provision for loan and lease losses and a provision for unfunded lending commitments. The table above only presents the provision for loan and lease losses, and does not include the provision for unfunded lending commitments of $3 million and $15 million in the second quarter and first six months of 2014, respectively, and a benefit of $16 million and a provision of $34 million in the second quarter and first six months of 2013, respectively.

(2) Primarily represents foreign currency translation adjustments and the net impact of loan transfers and sales. In the first quarter of 2013, the allowance of loan and lease losses was reduced by $289 million attributable to the transfer of the Best Buy portfolio from HFI to HFS, which was subsequently sold in the third quarter of 2013.

Table 25 presents an allocation of our allowance for loan and lease losses by portfolio segment as of June 30, 2014 and December 31, 2013.

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

	June 30, 2014		December 31, 2013	
(Dollars in millions)	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Credit Card:				
Domestic credit card	**$ 2,516**	**3.54%**	$ 2,836	3.87%
International credit card	**342**	**4.36**	378	4.70
Total credit card	**2,858**	**3.62**	3,214	3.95
Consumer Banking:				
Auto	**642**	**1.85**	606	1.90
Home loan[1]	**67**	**0.21**	83	0.24
Retail banking	**56**	**1.54**	63	1.74
Total consumer banking[1]	**765**	**1.08**	752	1.06
Commercial Banking:				
Commercial and multifamily real estate	**157**	**0.71**	143	0.69
Commercial and industrial	**193**	**0.76**	166	0.71
Total commercial lending	**350**	**0.74**	309	0.70
Small-ticket commercial real estate	**18**	**2.10**	29	3.05
Total commercial banking	**368**	**0.76**	338	0.75
Other:				
Other loans	**7**	**4.89**	11	9.09
Total allowance for loan and lease losses	**$ 3,998**	**2.01**	$ 4,315	2.19

Total allowance coverage ratios:				
Period-end loans held for investment	**$ 198,528**	**2.01**	$ 197,199	2.19
Period-end loans held for investment (excluding Acquired Loans)	**172,509**	**2.30**	168,649	2.54
Nonperforming loans[2]	**809**	**494.36**	867	497.69
Allowance coverage ratios by loan category[3]:				
Credit card (30+ day delinquent loans)	**2,343**	**121.99**	2,881	111.56
Consumer banking (30+ day delinquent loans)	**2,479**	**30.89**	2,750	27.35
Commercial banking (nonperforming loans)	**181**	**202.76**	149	226.85

(1) The coverage ratio, excluding Acquired Loans impact for home loan and total consumer banking was 0.53%, and 1.62%, respectively, as of June 30, 2014, compared with 0.64% and 1.68%, respectively, as of December 31, 2013.

(2) Our policy is generally not to classify domestic credit card loans as nonperforming and we generally accrue interest on domestic credit card loans through the date of charge-off. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance for loan and lease losses related to our domestic credit card loans, was 183.28% as of June 30, 2014, and 170.59% as of December 31, 2013.

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

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 funding requirements as well as any potential deposit run-off and maintaining 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 June 30, 2014 and December 31, 2013.

Table 26: Liquidity Reserves

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**
Cash and cash equivalents	**$ 6,732**	$ 6,291
Investment securities available for sale, at fair value	**41,113**	41,800
Investment securities held to maturity, at fair value	**21,405**	19,185
Total investment securities portfolio[1][2]	**62,518**	60,985
FHLB borrowing capacity secured by loans	**30,245**	28,623
Outstanding FHLB advances and letters of credit secured by loans	**(5,198)**	(8,917)
Outstanding FHLB advances and letters of credit secured by securities	**(5,704)**	(7,808)
Securities encumbered for Public Funds and others	**(11,250)**	(9,491)
Total liquidity reserves	**$ 77,343**	$ 69,683

(1) The weighted average life of our securities was approximately 6.1 years and 6.3 years as of June 30, 2014, and December 31, 2013, respectively.

(2) We pledged securities available for sale with a fair value of $7.5 billion and $10.7 billion as of June 30, 2014 and December 31, 2013, respectively. We also pledged securities held to maturity with a carrying value of $11.9 billion and $8.2 billion as of June 30, 2014 and December 31, 2013, respectively.

Our liquidity reserves increased by $7.7 billion, or 11%, in the first six months of 2014, to $77.3 billion as of June 30, 2014, from $69.7 billion as of December 31, 2013. This increase was primarily attributable to lower short-term FHLB advances as we experienced an increase in consumer deposits and also issued new senior note and card securitization funding in the first six months of 2014. See MD&A Risk Management in our 2013 Form 10-K for additional information on our management of liquidity risk.

Funding

The Company s primary source of funding comes from customer deposits. In addition to customer deposits, the Company raises funding through the purchase of Federal Funds, the issuance of brokered deposits, FHLB advances secured by certain portions of our loan and securities portfolios, the issuance of senior and subordinated notes, loan securitization transactions and other various types of borrowings. A key objective in our use of these markets is to ensure we maintain access to a diversified mix of wholesale funding sources.

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 six months of 2014 and full year 2013.

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Table 27: Deposit Composition and Average Deposit Rates

	Six Months Ended June 30, 2014				
(Dollars in millions)	**Period End Balance**	**Average Balance**	**Interest Expense**	**% of Average Deposits**	**Average Deposit Rate**
Non-interest bearing checking accounts	**$ 24,920**	**$ 23,649**	**N/A**	**11.5%**	**N/A**
Interest-bearing checking accounts[1]	**41,420**	**43,099**	**$ 106**	**20.9**	**0.49%**
Saving deposits[2]	**130,370**	**129,615**	**373**	**62.9**	**0.58**
Time deposits less than $100,000	**5,677**	**5,911**	**39**	**2.9**	**1.30**
Total core deposits	**202,387**	**202,274**	**518**	**98.2**	**0.51**
Time deposits of $100,000 or more	**2,594**	**2,702**	**28**	**1.3**	**2.09**
Foreign time deposits[3]	**909**	**1,104**	**2**	**0.5**	**0.33**
Total customer deposits	**$ 205,890**	**$ 206,080**	**$ 548**	**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 June 30, 2014, and December 31, 2013.

Total deposits increased by $1.4 billion during the first six months of 2014, to $205.9 billion as of June 30, 2014, from $204.5 billion as of December 31, 2013, driven by growth in our Consumer and Commercial Banking businesses, 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 deposits and time deposits in the above table and totaled $4.9 billion and $6.0 billion as of June 30, 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 June 30, 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 and do not include the current portion of long-term debt. 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 $5.7 billion in the first six months of 2014, from $16.2 billion as of December 31, 2013, to $10.5 billion as of June 30, 2014. This decrease reflects $21.6 billion in payoffs of FHLB advances, partially offset by $15.8 billion in new advances in the first six months of 2014.

Our long-term debt, which consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by $4.2 billion in the first six months of 2014, from $24.4 billion as of December 31, 2013, to $28.6 billion as of June 30, 2014. The increase was primarily attributable to new senior note issuances of $4.8 billion, card securitization issuances of $2.5 billion and long-term FHLB advances of $1.0 billion, partially offset by $4.2 billion of maturities.

Table 28 provides the average balances and average interest rates of our short-term borrowings for the second quarter and first six months of 2014 and 2013. This table also presents the period-end balances, weighted average interest rates and the maximum month-end outstanding amounts of our short-borrowings as of June 30, 2014 and December 31, 2013.

Table 28: Short-Term Borrowings

	Three Months Ended June 30,			
	2014		2013	
(Dollars in millions)	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
Federal funds purchased and repurchase agreements	**$ 1,978**	**0.08%**	$ 1,461	0.10%
FHLB advances	**5,859**	**0.20**	10,395	0.23
Total short-term borrowings	**$ 7,837**	**0.17**	$ 11,856	0.21

	Six Months Ended June 30,			
	2014		2013	
(Dollars in millions)	Average Balance	Average Interest Rate	Average Balance	Average Interest Rate
Federal funds purchased and repurchase agreements	**$ 1,732**	**0.08%**	$ 1,286	0.11%
FHLB advances	**7,376**	**0.23**	13,007	0.25
Total short-term borrowings	**$ 9,108**	**0.20**	$ 14,293	0.24

(Dollars in millions)	**June 30, 2014** Outstanding Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount	**December 31, 2013** Outstanding Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount
Federal funds purchased and repurchase agreements	**$ 2,030**	**0.06%**	**$ 2,325**	$ 915	0.06%	$ 2,258
FHLB advances	**8,450**	**0.21**	**12,500**	15,300	0.25	16,600
Total short-term borrowings	**$ 10,480**	**0.18**		$ 16,215	0.24	

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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 June 30, 2014, and the outstanding balances as of December 31, 2013.

Table 29: Contractual Maturity Profile of Outstanding Debt

	June 30, 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	**$ 2,030**	**$**	**$**	**$**	**$**	**$**	**$ 2,030**	$ 915
FHLB advances	**8,450**						**8,450**	15,300
Total short-term borrowings	**10,480**						**10,480**	16,215
Long-term debt:								
Securitized debt obligations	**399**	**2,354**	**4,981**	**1,613**	**588**	**75**	**10,010**	10,289
Senior and subordinated notes:								
Unsecured senior debt	**2,642**	**1,250**	**2,974**	**1,221**	**3,102**	**2,824**	**14,013**	10,464
Unsecured subordinated debt			**1,102**			**1,513**	**2,615**	2,670
Total senior and subordinated notes	**2,642**	**1,250**	**4,076**	**1,221**	**3,102**	**4,337**	**16,628**	13,134
Other long-term borrowings:								
FHLB advances	**1,938**	**7**	**32**	**12**	**5**	**2**	**1,996**	1,016
Total long-term debt[1]	**4,979**	**3,611**	**9,089**	**2,846**	**3,695**	**4,414**	**28,634**	24,439
Total short-term borrowings and long-term debt	**$ 15,459**	**$ 3,611**	**$ 9,089**	**$ 2,846**	**$ 3,695**	**$ 4,414**	**$ 39,114**	$ 40,654

Percentage of total	**40%**	**9%**	**23%**	**7%**	**10%**	**11%**	**100%**

(1) Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of $232 million and $236 million as of June 30, 2014 and December 31, 2013, respectively.

We provide additional information on our short-term borrowings and long-term debt above under Consolidated Balance Sheets Analysis Securitized Debt Obligations, Consolidated 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 $37.7 billion as of June 30, 2014. This borrowing capacity was secured by posting $30.2 billion of loans and $7.5 billion of securities as collateral. As of June 30, 2014, we had outstanding FHLB advances and letters of credit of $10.9 billion and $26.9 billion still available to us to borrow under this program. The

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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 $500 million and $774 million as of June 30, 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.

Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our non-deposit 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 June 30, 2014 and December 31, 2013.

Table 30: Senior Unsecured Debt Credit Ratings

	June 30, 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 July 31, 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 June 30, 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.

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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 $73.2 billion as of June 30, 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 0% 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

This sensitivity measure estimates the impact on our projected 12-month base-line interest rate sensitive revenue resulting from movements in interest rates. Interest rate sensitive revenue consists of net interest income and certain components of other non-interest income significantly impacted by movements in interest rates, including changes in the fair value of mortgage servicing rights and 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 projected interest rate sensitive revenue, 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, with the lower rate scenario limited to zero as described above.

Table 31 shows the estimated percentage impact on our projected base-line interest rate sensitive revenue and economic value of equity, calculated under the hypothetical interest rate scenarios described above, as of June 30, 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

	June 30, 2014	**December 31, 2013**
Impact on projected base-line net interest income:		
+200 basis points	**4.4%**	4.9%
50 basis points	**(1.9)**	(1.5)
Impact on economic value of equity:		
+200 basis points	**(4.3)**	(5.7)
50 basis points	**(0.7)**	0.3

Our projected net interest income and economic value of equity sensitivity measures were within our prescribed policy limits as of June 30, 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

On June 12, 2014, the Federal Reserve and OCC released notices of proposed rulemakings that would incorporate changes to their capital plan and stress testing regulations, respectively (the Proposed Rules). These proposals would change the annual capital plan and stress test cycle start date from October 1 to January 1, effective for the cycle beginning January 1, 2016. In order to provide a transition to the proposed timing, the Federal Reserve s decision on a bank holding company s (BHC) 2015 capital plan submission would cover a five-quarter period from the second quarter of 2015 through the second quarter of 2016. Subsequent submissions each would cover a four-quarter period. The change in the start date of the annual cycle impacts the as-of dates for data used to project results as well as the dates that stress test results must be submitted to the regulators and disclosed to the public. The proposals also provide a one-year deferral on the use of advanced approaches methodology and will not require banking institutions even those that have exited the parallel run to use the advanced approaches methodology to estimate their capital ratios for the 2015 capital plan and stress test cycles. In addition, among other proposed changes, the Federal Reserve s proposal would provide for the Federal Reserve to shift its focus from annual capital issuances and distributions to quarterly capital issuances and distributions by establishing a new requirement that to the extent a BHC does not issue the amount of regulatory capital projected in its capital plan in any given quarter the BHC must adjust its capital issuances or distributions as required by the proposal such that the net amounts of a BHC s actual capital issuances and capital distributions in a calendar quarter cannot be less than the net amounts of capital issuances and capital distributions projected in the BHC s capital plan for that calendar quarter. The Proposed Rules currently are in a public comment period and are subject to change.

We provide additional information on our Supervision and Regulation in our 2013 Form 10-K under Part I Item 1 Business Supervision and Regulation and in our Quarterly Report on Form 10-Q for the quarter ended March 31, 2014 under Part I Item 2 Management Discussion and Analysis of Financial Condition and Results of Operations Supervision and Regulation.

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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;

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)	**June 30, 2014**	**December 31, 2013**
Tangible Common Equity (Quarterly Average)		
Average stockholders equity	**$ 43,767**	$ 42,355
Adjustments:		
Average goodwill and other intangible assets[2]	**(15,615)**	(15,847)
Noncumulative perpetual preferred stock[3]	**(970)**	(853)
Average tangible common equity	**$ 27,182**	$ 25,655
Tangible Common Equity (Period End)		
End of period stockholders equity	**$ 43,815**	$ 41,632
Adjustments:		
Goodwill and other intangible assets[2]	**(15,564)**	(15,784)
Noncumulative perpetual preferred stock[3]	**(1,338)**	(853)
Tangible common equity	**$ 26,913**	$ 24,995
Tangible Assets (Quarterly Average)		
Average assets	**$ 294,744**	$ 294,040
Adjustments: Average goodwill and other intangible assets[2]	**(15,615)**	(15,847)
Average tangible assets	**$ 279,129**	$ 278,193
Tangible Assets (Period End)		
End of period assets	**$ 298,317**	$ 296,933
Adjustments: Goodwill and other intangible assets[2]	**(15,564)**	(15,784)
Tangible assets	**$ 282,753**	$ 281,149
Non-GAAP TCE ratio		
TCE ratio[4]	**9.52%**	8.89%

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Regulatory Capital Ratios Under Basel III Standardized Approach[5]	**June 30, 2014**
Common equity excluding AOCI	**$ 42,848**
Adjustments:	
AOCI[6][7]	**6**
Goodwill[2]	**(13,811)**
Intangible Assets[2][7]	**(289)**
Other	**20**
Common equity Tier 1 capital	**28,774**
Adjustments:	
Tier 1 capital instruments[3]	**1,338**
Additional Tier 1 capital adjustments	**(1)**
Tier 1 capital	**30,111**
Adjustments:	
Tier 2 capital instruments[3]	**1,779**
Qualifying allowance for loan and lease losses	**2,850**
Additional Tier 2 capital adjustments	**3**
Tier 2 capital	**4,632**
Total risk-based capital[8]	**$ 34,743**
Risk-weighted assets[9]	**$ 226,172**
Average assets for the leverage ratio	**281,345**

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

	June 30, 2014	December 31, 2013
Common equity Tier 1 capital ratio(10)	**12.72%**	N/A
Tier 1 common ratio(11)	**N/A**	12.19
Tier 1 risk-based capital ratio(12)	**13.31**	12.57
Total risk-based capital ratio(13)	**15.36**	14.69
Tier 1 leverage ratio (14)	**10.70**	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 the 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

(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).

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.

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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.

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.

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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 **Agency:** A government-sponsored enterprise or agency 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), Government National Mortgage Association (Ginnie Mae) and the Federal Home Loan Banks.

Impairment: The condition when the carrying amount of an asset exceeds or is 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 multifamily 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.

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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

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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

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

FIRREA: Financial Institutions Reform, Recovery, and Enforcement Act

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

OTC: Over-the-counter

PCA: Prompt corrective action

PCCR: Purchased credit card relationship

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RMBS: Residential mortgage-backed securities

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

Item 1. Financial Statements and Notes

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share-related data)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Interest income:				
Loans, including loans held for sale	**$ 4,279**	$ 4,596	**$ 8,586**	$ 9,245
Investment securities	**409**	391	**825**	765
Other	**24**	23	**54**	51
Total interest income	**4,712**	5,010	**9,465**	10,061
Interest expense:				
Deposits	**272**	318	**548**	644
Securitized debt obligations	**39**	45	**77**	101
Senior and subordinated notes	**78**	82	**155**	164
Other borrowings	**8**	12	**20**	29
Total interest expense	**397**	457	**800**	938
Net interest income	**4,315**	4,553	**8,665**	9,123
Provision for credit losses	**704**	762	**1,439**	1,647
Net interest income after provision for credit losses	**3,611**	3,791	**7,226**	7,476
Non-interest income:				
Service charges and other customer-related fees	**460**	534	**934**	1,084
Interchange fees, net	**535**	486	**975**	931
Total other-than-temporary impairment	**(3)**	(12)	**(6)**	(18)
Less: Portion of other-than-temporary impairment recorded in AOCI	**2**	8	**0**	(11)
Net other-than-temporary impairment recognized in earnings	**(1)**	(4)	**(6)**	(29)
Other	**159**	69	**270**	80
Total non-interest income	**1,153**	1,085	**2,173**	2,066
Non-interest expense:				
Salaries and associate benefits	**1,125**	1,118	**2,286**	2,213
Occupancy and equipment	**447**	371	**852**	728
Marketing	**335**	330	**660**	647
Professional services	**296**	340	**583**	662
Communications and data processing	**203**	236	**399**	452
Amortization of intangibles	**136**	167	**279**	344

Other	**437**	456	**852**	963
Total non-interest expense	**2,979**	3,018	**5,911**	6,009
Income from continuing operations before income taxes	**1,785**	1,858	**3,488**	3,533
Income tax provision	**581**	631	**1,160**	1,172
Income from continuing operations, net of tax	**1,204**	1,227	**2,328**	2,361
Income (loss) from discontinued operations, net of tax	**(10)**	(119)	**20**	(197)
Net income	**1,194**	1,108	**2,348**	2,164
Dividends and undistributed earnings allocated to participating securities	**(4)**	(4)	**(9)**	(9)
Preferred stock dividends	**(13)**	(13)	**(26)**	(26)
Net income available to common stockholders	**$ 1,177**	$ 1,091	**$ 2,313**	$ 2,129
Basic earnings per common share:				
Net income from continuing operations	**$ 2.09**	$ 2.08	**$ 4.03**	$ 4.00
Income (loss) from discontinued operations	**(0.02)**	(0.20)	**0.03**	(0.34)
Net income per basic common share	**$ 2.07**	$ 1.88	**$ 4.06**	$ 3.66
Diluted earnings per common share:				
Net income from continuing operations	**$ 2.06**	$ 2.05	**$ 3.97**	$ 3.96
Income (loss) from discontinued operations	**(0.02)**	(0.20)	**0.03**	(0.34)
Net income per diluted common share	**$ 2.04**	$ 1.85	**$ 4.00**	$ 3.62
Dividends paid per common share	**$ 0.30**	$ 0.30	**$ 0.60**	$ 0.35

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2014**	**2013**	**2014**	**2013**
Net income	**$ 1,194**	$ 1,108	**$ 2,348**	$ 2,164
Other comprehensive income (loss) before taxes:				
Net unrealized gains (losses) on securities available for sale	**269**	(1,747)	**498**	(1,956)
Net unrealized gains on securities held to maturity	**33**	0	**61**	0
Net unrealized gains (losses) on cash flow hedges	**114**	(258)	**144**	(279)
Foreign currency translation adjustments	**79**	(18)	**66**	(143)
Other	**(3)**	3	**(4)**	7
Other comprehensive income (loss) before taxes	**492**	(2,020)	**765**	(2,371)
Income tax provision (benefit) related to other comprehensive income	**153**	(755)	**264**	(840)
Other comprehensive income (loss), net of tax	**339**	(1,265)	**501**	(1,531)
Comprehensive income (loss)	**$ 1,533**	$ (157)	**$ 2,849**	$ 633

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	**June 30, 2014**	**December 31, 2013**
Assets:		
Cash and cash equivalents:		
Cash and due from banks	**$ 3,598**	$ 2,821
Interest-bearing deposits with banks	**2,954**	3,131
Federal funds sold and securities purchased under agreements to resell	**180**	339
Total cash and cash equivalents	**6,732**	6,291
Restricted cash for securitization investors	**361**	874
Securities available for sale, at fair value	**41,113**	41,800
Securities held to maturity, at carrying value	**20,688**	19,132
Loans held for investment:		
Unsecuritized loans held for investment	**161,224**	157,651
Restricted loans for securitization investors	**37,304**	39,548
Total loans held for investment	**198,528**	197,199
Allowance for loan and lease losses	**(3,998)**	(4,315)
Net loans held for investment	**194,530**	192,884
Loans held for sale, at lower of cost or fair value	**709**	218
Premises and equipment, net	**3,764**	3,839
Interest receivable	**1,473**	1,418
Goodwill	**13,977**	13,978
Other assets	**14,970**	16,499
Total assets	**$ 298,317**	$ 296,933
Liabilities:		
Interest payable	**$ 309**	$ 307
Customer deposits:		
Non-interest bearing deposits	**24,920**	22,643
Interest-bearing deposits	**180,970**	181,880
Total customer deposits	**205,890**	204,523
Securitized debt obligations	**10,010**	10,289
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**2,030**	915
Senior and subordinated notes	**16,628**	13,134
Other borrowings	**10,446**	16,316

Total other debt	**29,104**	30,365
Other liabilities	**9,189**	9,817
Total liabilities	**254,502**	255,301
Commitments, contingencies and guarantees (see Note 14)		
Stockholders equity:		
Preferred stock (par value $.01 per share; 50,000,000 shares authorized; 1,375,000 and 875,000 shares issued and outstanding as of June 30, 2014, and December 31, 2013, respectively)	**0**	0
Common stock (par value $.01 per share; 1,000,000,000 shares authorized; 638,961,478 and 637,151,800 shares issued as of June 30, 2014, and December 31, 2013, respectively, and 561,849,971 and 572,675,375 shares outstanding as of June 30, 2014, and December 31, 2013, respectively)	**6**	6
Additional paid-in capital, net	**27,210**	26,526
Retained earnings	**22,270**	20,292
Accumulated other comprehensive income	**(371)**	(872)
Treasury stock at cost (par value $.01 per share; 77,111,507 and 64,476,425 shares as of June 30, 2014, and December 31, 2013, respectively)	**(5,300)**	(4,320)
Total stockholders equity	**43,815**	41,632
Total liabilities and stockholders equity	**$ 298,317**	$ 296,933

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY

(UNAUDITED)

	Preferred Stock		Common Stock				Accumulated Other Comprehensive	
ons, except per share data)	**Shares**	**Amount**	**Shares**	**Amount**	**Additional Paid-In Capital**	**Retained Earnings[1]**	**Income (Loss)**	**Treasury Stock**
ecember 31, 2013	875,000	$ 0	637,151,800	$ 6	$ 26,526	$ 20,292	$ (872)	$ (4,320
income						**2,348**	**501**	
common stock $0.60 per						**(344)**		
preferred stock 6% per						**(26)**		
asury stock								**(980**
mmon stock and restricted eitures			**841,187**	**0**	**51**			
k options and warrants, tax ises and restricted stock			**968,491**	**0**	**70**			
ferred stock (Series C)	**500,000**	**0**			**485**			
xpense for restricted stock options					**78**			
une 30, 2014	**1,375,000**	**$ 0**	**638,961,478**	**$ 6**	**$ 27,210**	**$ 22,270**	**$ (371)**	**$ (5,300**

(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 Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	**Six Months Ended June 30, 2014**	**2013**
Operating activities:		
Income from continuing operations, net of tax	**$ 2,328**	$ 2,361
Income (loss) from discontinued operations, net of tax	**20**	(197)
Net income	**2,348**	2,164
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**1,439**	1,647
Depreciation and amortization, net	**1,017**	1,152
Net gain on sales of securities available for sale	**(12)**	(4)
Impairment losses on securities available for sale	**6**	29
Loans held for sale:		
Originations and purchases	**(1,920)**	(552)
Gain on sales	**(20)**	(18)
Proceeds from sales and paydowns	**1,449**	625
Stock plan compensation expense	**137**	112
Changes in operating assets and liabilities:		
(Increase) decrease in interest receivable	**(55)**	240
Decrease in other assets	**1,227**	320
Increase (decrease) in interest payable	**2**	(126)
Decrease in other liabilities	**(668)**	(378)
Net cash used by discontinued operations	**(30)**	(287)
Net cash provided by operating activities	**4,920**	4,924
Investing activities:		
Purchases of securities	**(7,907)**	(10,502)
Proceeds from paydowns and maturities of securities	**3,976**	8,486
Proceeds from sales of securities	**3,559**	1,320
Net (increase) decrease in loans held for investment	**(4,047)**	4,705
Principal recoveries of loans previously charged off	**802**	827
Purchases of premises and equipment	**(250)**	(450)
Net cash provided (used) by investing activities	**(3,867)**	4,386
Financing activities:		
Decrease in restricted cash for securitization investors	**513**	51
Net increase (decrease) in deposits	**1,363**	(2,628)
Issuance of securitized debt obligations	**2,446**	1,450
Maturities and paydowns of securitized debt obligations	**(2,791)**	(2,017)

Issuance of senior and subordinated notes and junior subordinated debentures		**4,731**		934
Redemption of junior subordinated debentures		**0**		(3,641)
Maturities and redemptions of senior and subordinate notes		**(1,374)**		(500)
Net decrease in other borrowings		**(4,755)**		(9,191)
Net proceeds from issuances of common stock		**51**		44
Net proceeds from issuances of preferred stock		**484**		0
Proceeds from share-based payment activities		**70**		44
Dividends paid on common stock		**(344)**		(206)
Dividends paid on preferred stock		**(26)**		(26)
Purchases of treasury stock		**(980)**		(29)
Net cash used in financing activities		**(612)**		(15,715)
Decrease in cash and cash equivalents		**441**		(6,405)
Cash and cash equivalents at beginning of the period.		**6,291**		11,058
Cash and cash equivalents at end of the period	**$**	**6,732**	$	4,653
Supplemental cash flow information:				
Non-cash items:				
Net transfers from loans held for investment to loans held for sale	**$**	**22**	$	6,820
Net debt exchange of senior and subordinated notes		**0**		1,968
Interest paid		**798**		1,064
Income tax paid		**884**		646

See Notes to Consolidated Financial Statements.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO 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 June 30, 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 loans. Our branch of COBNA in Canada also 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 on 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 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 $297.0 billion, $255.3 billion and $20.4 billion, respectively, as of December 31, 2013. In addition, net income was reduced by $9 million from $1.1 billion for the three months ended June 30, 2013 and by $19 million from $2.2 billion for the first six months ended June 30, 2013.

During the second quarter and first six months of 2014, we recognized amortization of $72 million and $144 million, respectively and tax credits of $88 million and $178 million, respectively, associated with these investments within income taxes. The carrying value of our investments in these qualified affordable housing projects was $2.9 billion and $2.8 billion as of June 30, 2014 and December 31, 2013, respectively. 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 June 30, 2014, which are expected to be paid during the years from 2014 to 2017.

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 amounts of the obligations 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

Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued guidance clarifying that a performance target contained within a share-based payment award that affects vesting and can be achieved after the requisite service period has been completed is to be accounted for as a performance condition. Accordingly, the grantor of such awards would recognize compensation cost in the period in which it becomes probable that the performance target will be achieved. The amount of the compensation cost recognized should represent the cost attributable to the requisite service period fulfilled. The guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. Entities may elect to adopt the guidance on either a prospective or modified retrospective basis. 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 consistent with our current practice.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

Accounting for Repurchase Transactions

In June 2014, the FASB issued guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings rather than sales. New disclosures for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor retains substantially all of the exposure to the economic return on the transferred financial assets will also be required. We do not expect our adoption of the accounting 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 consistent with our current practice. The new disclosures will be provided beginning in the second quarter of 2015.

Revenue from Contracts with Customers

In May 2014, the FASB issued revised guidance for the recognition, measurement, and disclosure of revenue from contracts with customers. The guidance is applicable to all entities and, once effective, will replace significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Most revenue associated with financial instruments, including interest and loan origination fees, is outside the scope of the guidance. Gains and losses on investment securities, derivatives and sales of financial instruments are similarly excluded from the scope. The guidance is effective for annual and interim periods beginning after December 15, 2016, with early adoption prohibited. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. We are currently evaluating the guidance to identify which of our revenue streams are within its scope and determine which transition method we plan to elect. Accordingly, we cannot yet quantify the impact our adoption of this guidance will have in the first quarter of 2017.

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.

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.

CAPITAL ONE FINANCIAL CORPORATION

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

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 and six months ended June 30, 2014 and 2013. 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

(Dollars in millions)	Three Months Ended June 30, 2014	Three Months Ended June 30, 2013	Six Months Ended June 30, 2014	Six Months Ended June 30, 2013
Non-interest income (expense), net	**$ (15)**	$ (190)	**$ 32**	$ (315)
Income (loss) from discontinued operations before taxes	**(15)**	(190)	**32**	(315)
Income tax provision (benefit)	**(5)**	(71)	**12**	(118)
Income (loss) from discontinued operations	**$ (10)**	$ (119)	**$ 20**	$ (197)

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets of $352 million and $370 million as of June 30, 2014 and December 31, 2013, respectively. Liabilities, which primarily consisted of reserves for representations and warranties on loans previously sold to third parties, totaled $912 million and $960 million as of June 30, 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 and non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS); other asset-backed securities (ABS), and othe 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 (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 represents 79% and 77% of our total investment securities as of June 30, 2014 and December 31, 2013, respectively.

Our investment portfolio includes securities available for sale and 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.

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CAPITAL ONE FINANCIAL CORPORATION

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The table below presents the overview of our investment portfolio at June 30, 2014 and December 31, 2013.

Table 3.1 Overview of Investment Portfolio

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**
Securities available for sale, at fair value	**$ 41,113**	$ 41,800
Securities held to maturity, at carrying value	**20,688**	19,132
Total investments	**$ 61,801**	$ 60,932

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale at June 30, 2014 and December 31, 2013.

Table 3.2 Investment Securities Available for Sale

	June 30, 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	**$ 1,221**	**$ 2**	**$ 0**	**$ 1,223**
U.S. Agency debt obligations	**1**	**0**	**0**	**1**
Corporate debt securities guaranteed by U.S. government agencies	**1,120**	**1**	**(29)**	**1,092**
Residential mortgage-backed securities (RMBS):				
Agency	**21,779**	**309**	**(140)**	**21,948**
Non-agency	**3,077**	**512**	**(10)**	**3,579**
Total RMBS	**24,856**	**821**	**(150)**	**25,527**
Commercial mortgage-backed securities (CMBS):				
Agency	**4,041**	**32**	**(61)**	**4,012**
Non-agency	**1,803**	**28**	**(23)**	**1,808**
Total CMBS	**5,844**	**60**	**(84)**	**5,820**
Other assets backed securities (ABS[2])	**5,972**	**65**	**(15)**	**6,022**
Other securities[3]	**1,433**	**16**	**(21)**	**1,428**

Total investment securities available for sale	**$**	**40,447**	**$**	**965**	**$**	**(299)**	**$**	**41,113**

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	December 31, 2013			
(Dollars in millions)	**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 $8 million and $12 million as of June 30, 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 65% of the other ABS portfolio both as of June 30, 2014, and December 31, 2013, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 15% of the other ABS portfolio as of June 30, 2014 and December 31, 2013, respectively. Approximately 89% of the securities in our other ABS portfolio were rated AAA or its equivalent as of June 30, 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 June 30, 2014 and December 31, 2013.

Table 3.3 Investment Securities Held to Maturity

	June 30, 2014					
(Dollars in millions)	**Amortized Cost**	**Unrealized Losses Recorded in AOCI[1]**	**Carrying Value**	**Gross Unrealized Gains**	**Gross Unrealized Losses**	**Fair Value**
Agency RMBS	**$ 20,100**	**$ (1,248)**	**$ 18,852**	**$ 649**	**$ (3)**	**$ 19,498**
Agency CMBS	**1,962**	**(126)**	**1,836**	**75**	**(4)**	**1,907**
Total investment securities held to maturity	**$ 22,062**	**$ (1,374)**	**$ 20,688**	**$ 724**	**$ (7)**	**$ 21,405**

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	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 June 30, 2014 and December 31, 2013.

Table 3.4: Securities in Unrealized Loss Position

	June 30, 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	**$ 151**	**$ (2)**	**$ 838**	**$ (27)**	**$ 989**	**$ (29)**
RMBS:						
Agency	**3,224**	**(14)**	**5,138**	**(127)**	**8,362**	**(141)**
Non-agency	**149**	**(2)**	**231**	**(8)**	**380**	**(10)**
Total RMBS	**3,373**	**(16)**	**5,369**	**(135)**	**8,742**	**(151)**
CMBS:						
Agency	**572**	**(5)**	**2,087**	**(56)**	**2,659**	**(61)**

Non-agency	**111**	**0**	**754**	**(23)**	**865**	**(23)**
Total CMBS	**683**	**(5)**	**2,841**	**(79)**	**3,524**	**(84)**
Other ABS	**90**	**0**	**825**	**(14)**	**915**	**(14)**
Other securities	**115**	**0**	**718**	**(21)**	**833**	**(21)**
Total investment securities available for sale in a gross unrealized loss position	**$ 4,412**	**$ (23)**	**$ 10,591**	**$ (276)**	**$ 15,003**	**$ (299)**

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	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)

As of June 30, 2014, the amortized cost of approximately 600 securities available for sale exceeded their fair value by $299 million, of which $276 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 $68 million, or 23%, of total gross unrealized losses on securities available for sale as of June 30, 2014.

As of June 30, 2014, the carrying value of approximately 20 securities held to maturity exceeded their fair value by $7 million. Substantially 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 June 30, 2014.

Maturities and Yields of Investment Securities

The following tables summarize the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of June 30, 2014:

Table 3.5: Contractual Maturities of Securities Available for Sale

	June 30, 2014	
(Dollars in millions)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	**$ 2,117**	**$ 2,120**
Due after 1 year through 5 years	**5,033**	**5,059**
Due after 5 years through 10 years	**3,835**	**3,824**
Due after 10 years[1]	**29,462**	**30,110**
Total	**$ 40,447**	**$ 41,113**

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

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Table 3.6: Contractual Maturities of Securities Held to Maturity

	June 30, 2014	
(Dollars in millions)	**Carrying Value**	**Fair Value**
Due after 5 years through 10 years	**$ 1,140**	**$ 1,207**
Due after 10 years	**19,548**	**20,198**
Total	**$ 20,688**	**$ 21,405**

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 weighted average yields of our investment securities as of June 30, 2014.

Table 3.7: Expected Maturities and Weighted Average Yields of Securities

	June 30, 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	**$ 656**	**$ 567**	**$ 0**	**$ 0**	**$ 1,223**
U.S. Agency debt obligations	**1**	**0**	**0**	**0**	**1**
Corporate debt securities guaranteed by U.S. government agencies	**0**	**207**	**872**	**13**	**1,092**
RMBS:					
Agency	**193**	**9,888**	**11,867**	**0**	**21,948**
Non-agency	**21**	**940**	**1,998**	**620**	**3,579**
Total RMBS	**214**	**10,828**	**13,865**	**620**	**25,527**
CMBS:					
Agency	**400**	**2,838**	**774**	**0**	**4,012**
Non-agency	**84**	**477**	**1,227**	**20**	**1,808**
Total CMBS	**484**	**3,315**	**2,001**	**20**	**5,820**
Other ABS	**1,949**	**3,375**	**601**	**97**	**6,022**
Other securities	**59**	**521**	**752**	**96**	**1,428**

Total securities available for sale	$ 3,363	$ 18,813	$ 18,091	$ 846	$ 41,113
Amortized cost of securities available for sale	**$ 3,361**	**$ 18,579**	**$ 17,788**	**$ 719**	**$ 40,447**
Weighted average yield for securities available for sale[1]	**1.12%**	**2.21%**	**3.08%**	**7.50%**	**2.59%**
Carrying value of securities held to maturity:					
Agency RMBS	$ 0	$ 109	$ 15,530	$ 3,213	$ 18,852
Agency CMBS	0	396	1,364	76	1,836
Total securities held for maturity	$ 0	$ 505	$ 16,894	$ 3,289	$ 20,688
Fair value of securities held to maturity	**$ 0**	**$ 505**	**$ 17,462**	**$ 3,438**	**$ 21,405**
Weighted average yield for securities held to maturity[1]	**0.00%**	**2.31%**	**2.73%**	**3.14%**	**2.79%**

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(1) Average yield is calculated based on the amortized cost of each security. Effective in the second quarter of 2014, we began reporting the effective yield for the investment securities. Prior to second quarter of 2014, we reported the purchase yield for the investment securities. The impact of this change on prior periods is not material.

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 Other-Than-Temporary Impairment (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 the long term; and current and projected market and macro-economic conditions.

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 the security 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 and six months ended June 30, 2014 and 2013, related to the credit component of OTTI recognized in earnings on debt securities:

Table 3.8 Credit Impairment Rollforward

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in millions)	**2014**	**2013**	**2014**	**2013**
Credit loss component, beginning of period	**$ 165**	$ 145	**$ 160**	$ 120
Additions:				
Initial credit impairment	**0**	3	**1**	11
Subsequent credit impairment	**1**	1	**5**	18
Total additions	**1**	4	**6**	29

Reduction due to payoffs, disposals, transfers & other	**(1)**		**(1)**	
Credit loss component, end of period	**$ 165**	$ 149	**$ 165**	$ 149

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 June 30, 2014.

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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 and six months ended June 30, 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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2014**	**2013**	**2014**	**2013**
Gross realized investment gains	**$ 2**	$ 3	**$ 34**	$ 6
Gross realized investment losses	**(3)**	(2)	**(22)**	(3)
Net realized gains (losses)	**$ (1)**	$ 1	**$ 12**	$ 3
Total proceeds from sales	**$ 583**	$ 600	**$ 3,559**	$ 1,320

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 $7.5 billion and $10.7 billion as of June 30, 2014 and December 31, 2013, respectively. We pledged securities held to maturity with a carrying value of $11.9 billion and $8.2 billion as of June 30, 2014 and December 31, 2013, respectively. Of the total securities pledged as collateral, we have encumbered $17.0 billion and $17.3 billion as of June 30, 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 $11 million and $53 million as of June 30, 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 June 30, 2014 and December 31, 2013.

Table 3.10: Outstanding Balance and Carrying Value of Acquired Securities

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**
Contractual principal and interest	**$ 4,483**	$ 4,700
Carrying value	**2,959**	2,896
Amortized cost	**2,425**	2,432

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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)
Reduction due to payoffs, disposals, transfers & other	(2)
Net reclassifications (to) from nonaccretable difference	72
Accretable yield as of December 31, 2013	$ 1,423
Additions from new acquisitions	**26**
Accretion recognized in earnings	**(122)**
Reduction due to payoffs, disposals, transfers & other	**(2)**
Net reclassifications (to) from nonaccretable difference	**22**
Accretable yield as of June 30, 2014	**$ 1,347**

NOTE 4 LOANS

Loan Portfolio Composition

Our total loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts, and loans held for sale. 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. 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 $26.0 billion as of June 30, 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, therefore they were excluded from the Acquired Loans above and accounted for based on contractual cash flows at acquisition. 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 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 June 30, 2014 and December 31, 2013.

Table 4.1: Loan Portfolio Composition

(Dollars in millions)	**June 30, 2014**	**December 31, 2013**
Credit Card:		
Domestic credit card[1]	**$ 71,165**	$ 73,255
International credit card	**7,853**	8,050
Total credit card	**79,018**	81,305
Consumer Banking:		
Auto	**34,792**	31,857
Home loan	**32,644**	35,282
Retail banking	**3,626**	3,623
Total consumer banking	**71,062**	70,762
Commercial Banking:[2]		
Commercial and multifamily real estate	**22,040**	20,750
Commercial and industrial	**25,402**	23,309
Total commercial lending	**47,442**	44,059
Small-ticket commercial real estate	**879**	952
Total commercial banking	**48,321**	45,011
Other:		
Other loans	**127**	121
Total loans	**$ 198,528**	$ 197,199

[(1)] Includes installment loans related to domestic card loans of $205 million and $323 million as of June 30, 2014 and December 31, 2013, respectively.

[(2)] Includes construction loans and land development loans totaling $2.1 billion and $2.0 billion as of June 30, 2014 and December 31, 2013, respectively.

We had total loans held for sale of $709 million and $218 million as of June 30, 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

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loan portfolios. The level of nonperforming loans represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming loan 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 our 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 portfolio segment, 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 June 30, 2014 and December 31, 2013.

Table 4.2: Credit Quality

	June 30, 2014								
llars in millions)	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	Acquired Loans	Total Loans	> 90 Days and Accruing[1]	Non perform Loans
dit Card:									
nestic credit card	$ 69,115	$ 691	$ 439	$ 883	$ 2,013	$ 37	$ 71,165	$ 883	$ 0
rnational credit	7,523	131	75	124	330	0	7,853	81	81
al credit card	76,638	822	514	1,007	2,343	37	79,018	964	81
nsumer king:									
o	32,634	1,411	594	151	2,156	2	34,792	0	151
ne loan	6,643	44	24	219	287	25,714	32,644	0	351
il banking	3,541	14	5	17	36	49	3,626	1	29
al consumer king	42,818	1,469	623	387	2,479	25,765	71,062	1	531
mmercial king:									
nmercial and ifamily real e	21,880	52	10	33	95	65	22,040	1	64
nmercial and strial	25,168	32	3	47	82	152	25,402	4	105

l commercial ing	**47,048**	**84**	**13**	**80**	**177**	**217**	**47,442**	**5**	**169**
ll-ticket mercial real e	**867**	**2**	**2**	**8**	**12**	**0**	**879**	**0**	**12**
al commercial ing	**47,915**	**86**	**15**	**88**	**189**	**217**	**48,321**	**5**	**181**
er:									
er loans	**111**	**3**	**2**	**11**	**16**	**0**	**127**	**0**	**16**
al	**$ 167,482**	**$ 2,380**	**$ 1,154**	**$ 1,493**	**$ 5,027**	**$ 26,019**	**$ 198,528**	**$ 970**	**$ 809**
f Total loans	**84.36%**	**1.20%**	**0.58%**	**0.75%**	**2.53%**	**13.11%**	**100.00%**	**0.49%**	**0.41**

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	December 31, 2013								
llars in millions)	**Current**	**30-59 Days**	**60-89 Days**	**> 90 Days**	**Total Delinquent Loans**	**Acquired Loans**	**Total Loans**	**> 90 Days and Accruing[1]**	**Nor perfor Loan**
dit Card:									
estic credit card	$ 70,678	$ 778	$ 549	$ 1,187	$ 2,514	$ 63	$ 73,255	$ 1,187	$
national credit	7,683	141	85	141	367	0	8,050	96	8
l credit card	78,361	919	634	1,328	2,881	63	81,305	1,283	8
sumer king:									
	29,477	1,519	662	194	2,375	5	31,857	0	19
e loan	6,775	60	24	239	323	28,184	35,282	0	37
l banking	3,535	21	8	23	52	36	3,623	2	4
l consumer ing	39,787	1,600	694	456	2,750	28,225	70,762	2	61
nmercial king:									
mercial and family real e	20,602	17	11	36	64	84	20,750	2	5
mercial and strial	23,023	69	1	38	108	178	23,309	4	9
l commercial ng	43,625	86	12	74	172	262	44,059	6	14
l-ticket mercial real e .	941	8	2	1	11	0	952	0	
l commercial ing	44,566	94	14	75	183	262	45,011	6	149
er:									
r loans	102	4	2	13	19	0	121	0	1
l	$ 162,816	$ 2,617	$ 1,344	$ 1,872	$ 5,833	$ 28,550	$ 197,199	$ 1,291	$ 86

f Total loans	82.56%	1.33%	0.68%	0.95%	2.96%	14.48%	100.00%	0.65%	0.4

(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 June 30, 2014 and December 31, 2013. We also present the delinquency rates of our credit card loan portfolio and comparative net charge-offs for the three and six months ended June 30, 2014 and 2013.

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

	June 30, 2014					
(Dollars in millions)	Loans	% of Total[1]	Acquired Loans	% of Total[1]	Total	% of Total[1]
Domestic credit card:						
California	$ 7,784	9.9%	$ 4	0.0%	$ 7,788	9.9%
New York	5,114	6.5	4	0.0	5,118	6.5
Texas	4,874	6.2	3	0.0	4,877	6.2
Florida	4,251	5.4	2	0.0	4,253	5.4
Illinois	3,460	4.4	2	0.0	3,462	4.4
Pennsylvania	3,274	4.1	2	0.0	3,276	4.1
Ohio	2,820	3.6	2	0.0	2,822	3.6
New Jersey	2,630	3.3	1	0.0	2,631	3.3
Michigan	2,483	3.1	1	0.0	2,484	3.1
Other	34,438	43.5	16	0.1	34,454	43.6
Total domestic credit card	71,128	90.0	37	0.1	71,165	90.1
International credit card:						
Canada	4,257	5.4	0	0.0	4,257	5.4
United Kingdom	3,596	4.5	0	0.0	3,596	4.5
Total international credit card	7,853	9.9	0	0.0	7,853	9.9
Total credit card	$ 78,981	99.9%	$ 37	0.1%	$ 79,018	100.0%

	December 31, 2013					
(Dollars in millions)	Loans	% of Total[1]	Acquired Loans	% of Total[1]	Total	% of Total[1]
Domestic credit card:						
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	73,192	90.0	63	0.1	73,255	90.1
International credit card:						
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	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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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)

	June 30, 2014		December 31, 2013	
(Dollars in millions)	**Total**	**% of Total[2]**	**Total**	**% of Total[2]**
Selected credit metrics:				
30+ day delinquencies	**$ 2,343**	**2.97%**	$ 2,881	3.54%
90+ day delinquencies	**1,007**	**1.27**	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) 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 June 30,				Six Months Ended June 30,	
	2014		**2013**		**2014**	**2013**
(Dollars in millions)	**Amount**	**Rate[1]**	**Amount**	**Rate[1]**	**Amount**	