CAPITAL ONE FINANCIAL CORP
Form 10-K
February 27, 2014
Table of Contents

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

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

For the fiscal year ended December 31, 2013

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	**(I.R.S. Employer**
Incorporation or Organization)	**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

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

Title of Each Class	**Name of Each Exchange on Which Registered**
Common Stock (par value $.01 per share)	New York Stock Exchange
Warrants (expiring November 14, 2018)	New York Stock Exchange
Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B	New York Stock Exchange

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

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

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

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

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

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on December 31, 2013.

Common Stock, $.01 Par Value: $36,655,693,401*

* In determining this figure, the registrant assumed that the executive officers of the registrant and the registrant s directors are affiliates of the registrant. Such assumption shall not be deemed to be conclusive for any other purpose.

The number of shares outstanding of the registrant s common stock as of the close of business on January 31, 2014.

Common Stock, $.01 Par Value: 572,812,828 shares

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 1, 2014, are incorporated by reference into Part III.

Table of Contents

TABLE OF CONTENTS

Table of Contents

Table of Contents

INDEX OF MD&A TABLES AND SUPPLEMENTAL TABLES

Table of Contents

PART I

Item 1. Business

OVERVIEW

General

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) 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 December 31, 2013, 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. References to this Report or 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. All references to 2013, 2012, 2011, 2010, and 2009 refer to our fiscal years ended, or the dates, as the context requires, December 31, 2013, December 31, 2012, December 31, 2011, December 31, 2010 and December 31, 2009, respectively. Certain business terms used in this document are defined in the Glossary and Acronyms and should be read in conjunction with the Consolidated Financial Statements included in this Annual Report.

As one of the nation s 10 largest banks based on deposits as of December 31, 2013, we service banking customer accounts through the internet and branch locations primarily in New York, New Jersey, Texas, Louisiana, Maryland, Virginia and the District of Columbia. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and mortgage banking in markets across the United States. We were the fourth largest issuer of Visa® (Visa) and MasterCard® (MasterCard) credit cards in the United States based on the outstanding balance of credit card loans as of December 31, 2013.

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 United Kingdom (U.K.), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card and installment loans. Our branch of COBNA in Canada has the authority to provide credit card loans.

Recent Acquisitions and Dispositions

We regularly explore and evaluate opportunities to acquire financial services companies and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy. We also regularly consider the potential disposition of certain of our assets, branches, partnership agreements or lines of businesses. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions. Below we provide information on acquisitions and dispositions completed in 2013 and 2012.

Acquisitions in 2013

On November 1, 2013, we acquired Beech Street Capital, a privately-held, national originator and servicer of Federal National Mortgage Association (Fannie Mae), the Federal Home Loan Mortgage Corporation

(Freddie Mac) and Federal Housing Authority (FHA) multifamily commercial real estate loans. The acquisition expands and enhances our existing multifamily capabilities and product offerings. At closing, we acquired a mortgage servicing portfolio on approximately $10 billion of loans.

Dispositions in 2013

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 with Citibank, N.A.(Citibank), we received $6.4 billion for the net portfolio assets.

Acquisitions in 2012

ING Direct

On February 17, 2012, we completed the acquisition (the ING Direct 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 (collectively the ING Direct Sellers). The ING Direct acquisition resulted in the addition of loans of $40.4 billion, other assets of $53.9 billion and deposits of $84.4 billion as of the acquisition date.

HSBC U.S. Credit Card Business

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, National Association consumer credit card program and certain other retained assets and liabilities) (the 2012 U.S. card acquisition). The 2012 U.S. card acquisition included (i) the acquisition of HSBC s U.S. credit card portfolio, (ii) its on-going private label and co-branded partnerships, and (iii) other assets, including infrastructure and capabilities. At closing, we acquired approximately 27 million new active accounts, approximately $27.8 billion in outstanding credit card receivables designated as held for investment (HFI) and approximately $327 million in other net assets.

Additional Information

Our common stock trades on the New York Stock Exchange (NYSE) under the symbol COF and is included in the Standard & Poor s (S&P) 100 Index. As of January 31, 2014, there were 13,280 holders of record of our common stock. Our principal executive office is located at 1680 Capital One Drive, McLean, Virginia 22102 (telephone number (703) 720-1000. We maintain a website at www.capitalone.com. Documents available on our website include: (i) our Code of Business Conduct and Ethics for the Corporation; (ii) our Corporate Governance Principles; and (iii) charters for the Audit, Risk, Compensation, and Governance and Nominating Committees of the Board of Directors. These documents also are available in print to any shareholder who requests a copy.

In addition, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filing or furnishing such material to the U.S. Securities and Exchange Commission (SEC).

2

Table of Contents

OPERATIONS AND BUSINESS SEGMENTS

Our consolidated total net revenues are derived primarily from lending to consumer and commercial customers net of the costs associated with funding our assets including deposit-taking, which generate net interest income, and by activities that generate non-interest income, such as fee-based services provided to customers and merchant interchange fees with respect to certain credit card transactions. Our expenses primarily consist of the provision for credit losses, operating expenses (including associate salaries and benefits, occupancy and equipment costs, professional services, infrastructure enhancements and branch operations and expansion costs), marketing expenses and income taxes.

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

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

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

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

In the first quarter of 2012, we re-aligned the loan categories reported by our Commercial Banking business and the loan customer and product types included within each category. Prior period amounts have been recast to conform to the current period presentation. Table 1 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for 2013, 2012 and 2011. We provide additional information on the realignment of our Commercial Banking business segment under Business Segment Results and in Note 19 Business Segments of this Report.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volumes and the level of outstanding loan receivables due to higher seasonal consumer spending and payment patterns around the winter holiday season, summer vacations and back-to-school periods. Although there is some seasonal impact to purchase volumes and credit card loan balances in our Credit Card business, these seasonal trends have not caused significant fluctuations in our results of operations. No individual quarter in 2013, 2012 or 2011 accounted for more than 30% of our total revenues in any of these fiscal years. Delinquency rates in our Credit Card and Consumer businesses also have historically exhibited seasonal patterns, with delinquency rates generally tending to decrease in the first two quarters of the year as customers use income tax refunds to pay down outstanding loan balances.

For additional information on our business segments, including the financial performance of each business, see Part II Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations (MD&A) Executive Summary and Business Outlook, MD&A Business Segment Financial Performance and Note 19 Business Segments o this Report.

3

Table of Contents

SUPERVISION AND REGULATION

General

Capital One Financial Corporation is a bank holding company (BHC) under Section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842) (the BHC Act) and is subject to the requirements of the BHC Act, including its capital adequacy standards and limitations on our nonbanking activities. We are also subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System (the Federal Reserve). Permissible activities for a BHC include those activities that are so closely related to banking as to be a proper incident thereto, such as consumer lending and other activities that have been approved by the Federal Reserve by regulation or order. Certain servicing activities are also permissible for a BHC if conducted for or on behalf of the BHC or any of its affiliates. Impermissible activities for BHCs include activities that are related to commerce such as retail sales of nonfinancial products. Under the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act), Federal Reserve regulation, and Federal Reserve policy, we are expected to act as a source of financial and managerial strength to any banks that we control, including the Banks, and to commit resources to support them.

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

Our election to become a financial holding company under the GLBA certifies that the depository institutions we control meet certain criteria, including capital, management and Community Reinvestment Act (CRA) requirements. Effective July 21, 2011, under amendments to the BHC Act enacted under the Dodd-Frank Act, Capital One Financial Corporation also must be well capitalized and well managed. The failure to meet the criteria for financial holding company status could, depending on which requirements were not met, result in the company facing restrictions on new financial activities or acquisitions or being required to discontinue existing activities that are not generally permissible for bank holding companies.

The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund (the DIF) of the Federal Deposit Insurance Corporation (the FDIC) up to applicable limits. In addition to regulatory requirements imposed as a result of COBNA s international operations (discussed below), the Banks are subject to comprehensive regulation and periodic examination by the OCC, the FDIC and by the Consumer Financial Protection Bureau (the CFPB).

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

Regulation of Business Activities

The business activities of the Company and Banks also are subject to regulation and supervision under various laws and regulations.

Table of Contents

Regulations of Consumer Lending Activities

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

The Credit CARD Act (amending the Truth-In-Lending Act) enacted in May 2009, and related changes to Regulation Z, impose a number of restrictions on credit card practices impacting rates and fees and update the disclosures required for open-end credit. Overlimit fees may not be imposed without prior consent, and the number of such fees that can be charged for the same violation is constrained. The amount of any penalty fee or charge must be reasonable and proportional to the violation. The Credit CARD Act also significantly restricts the ability of a card issuer to increase rates charged on pre-existing card balances. Card issuers are generally prohibited from raising rates on pre-existing balances when generally prevailing interest rates change. Moreover, the circumstances under which a card issuer can raise the interest rate on pre-existing balances of a customer whose risk of default increases are restricted. Payments above the minimum payment must be allocated first to balances with the highest interest rate. The amount of fees charged to credit card accounts with lower credit lines is limited. A consumer s ability to pay must be taken into account before issuing credit or increasing credit limits. As a result, the rules implementing the Credit CARD Act could make the card business generally less resilient in future economic downturns.

Mortgage Lending

The CFPB has issued several final rules pursuant to the Dodd-Frank Act that provide additional disclosure requirements and substantive limitations on our mortgage lending activities. These rules, which include the Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z) and Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the Truth In Lending Act (Regulation Z), could impact the type and amount of mortgage loans we offer, though we do not expect the regulations to have a material financial impact on us. The Dodd-Frank Act also generally requires securitizers to retain a five percent economic interest in the credit risk of assets sold through the issuance of asset-backed securitizations, with an exemption for traditionally underwritten residential mortgage loans that meet the definition of a qualified residential mortgage loan. This requirement also could impact the type and amount of mortgage loans we offer, depending on the final regulations.

FFIEC Account Management Guidance

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

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

Table of Contents

Fair Credit Reporting

Like other financial institutions, the Banks rely upon consumer reports for prescreen marketing, underwriting new loans and for reviewing and managing risks associated with existing accounts. In addition, the Banks furnish customer account information to the major consumer reporting agencies. The use of consumer reports by the Banks and furnishing of account information to the consumer reporting agencies is regulated under the FCRA on a uniform, nationwide basis. This includes restrictions on the ability of the Banks to share consumer report information with affiliates and to use customer account information shared by affiliates for a marketing purpose. The Fair and Accurate Credit Transactions Act of 2003 (the FACT Act), extends the federal preemption of the FCRA permanently, although the law authorizes states to enact laws regulating certain subject matters so long as they are not inconsistent with the conduct required by the FCRA. The FACT Act also added new provisions to the FCRA designed to address the growing crime of identity theft and to improve the accuracy of consumer credit information. Generally, FCRA rulemaking and enforcement authority with respect to the Banks resides with the CFPB. In addition, the FCRA creates a limited private right of action for consumers to seek relief for certain violations of the FCRA.

Overdraft Protection

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

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted a final rule and an interim final rule (which largely was adopted in final form in July 2012) implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rules limited interchange fees per debit card transaction to $0.21 plus five basis points of the transaction amount and provided for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling that requires the Federal Reserve to reconsider the current permissible interchange amount. On August 21, 2013, the Federal Reserve appealed this ruling and on September 19, 2013, the District Court stayed its ruling pending the appeal. It remains unclear how the ruling and appeal will impact the Federal Reserve s interchange fee rules and our debit card business.

USA PATRIOT Act of 2001

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

Table of Contents

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

Funding

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 (FDICIA), as discussed in MD&A Liquidity Risk, only well-capitalized and adequately-capitalized institutions may accept brokered deposits. Adequately-capitalized institutions, however, must first obtain a waiver from the FDIC before accepting brokered deposits, and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar maturity from the institution s normal market area or, for deposits from outside the institution s normal market area, the national rate on deposits of comparable maturity. The FDIC is authorized to terminate a bank s deposit insurance upon a finding by the FDIC that the bank s financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank s regulatory agency. The termination of deposit insurance for a bank could have a material adverse effect on its liquidity and its earnings.

In addition to the provision requiring a securitizer to retain a portion of the credit risk of an asset-backed securitization, the Dodd-Frank Act also prohibits conflicts of interest relating to securitizations.

Non-Bank Activities

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

Capital One Asset Management LLC, which provides investment advice to customers of Capital One, N.A., which includes high net worth individuals, institutions, foundations, endowments and other organizations, is an SEC-registered investment adviser regulated under the Investment Advisers Act of 1940. ShareBuilder Advisors, LLC is also an SEC-registered investment adviser. Capital One Financial Advisors LLC is a state-registered investment adviser.

Finally, Capital One Agency LLC is a licensed insurance agency that provides both personal and business insurance services to retail and commercial clients and is regulated by the New York State Department of Financial Services in its home state and by the state insurance regulatory agencies in the states in which it operates.

7

Table of Contents

Derivative Activities

In 2012, the Commodity Futures Trading Commission (CFTC) and the SEC jointly issued final rules further defining the Dodd-Frank Act s swap dealer definitions. Based on the final rules, no Capital One entity will be required to register with the CFTC or SEC as a swap dealer; however, this may change in the future. If such registration occurs, the registered entity is required to comply with additional regulatory requirements relating to its derivatives activities. The Dodd-Frank Act also requires all swap market participants to keep swap transaction data records and report certain information to swap data repositories on a real-time and on-going basis. Further, each swap, group, category, type or class of swap that the CFTC or SEC determines must be cleared will need to be cleared through a derivatives clearinghouse unless the swap is eligible for a clearing exemption and executed on a designated contract market (DCM), exchange or swap execution facility (SEF), unless no DCM, exchange or SEF has made the swap available for trading.

Volcker Rule

In December 2013, the Federal Reserve, OCC, FDIC, SEC and CFTC approved a final rule implementing Section 619 of the Dodd-Frank Act, commonly referred to as the Volcker Rule. We and each of our subsidiaries, including the Banks, are subject to the Volcker Rule. The Volcker Rule contains prohibitions on proprietary trading and certain investments in, and relationships with, hedge funds and private equity funds, in each case as those terms are defined in the rule, and requires that we implement a robust compliance program in accordance with the requirements of the rule. Banking organizations have until July 21, 2015 to comply fully with most requirements of the Volcker Rule. Based on our preliminary assessment of the rule s requirements, we do not believe that the Volcker Rule will have a material impact on our financial results. We continue to evaluate the final rule to assess its impact on our individual businesses and ensure that our compliance program meets the rule s requirements.

Capital Adequacy

The Company and the Banks are subject to capital adequacy guidelines adopted by the Federal Reserve and OCC. For a further discussion of the capital adequacy guidelines, see MD&A Capital Management and Note 12 Regulatory and Capital Adequacy. The Company and the Banks exceeded minimum regulatory requirements under these guidelines as of December 31, 2013.

Advanced Approaches Rules

The Federal Reserve, OCC and FDIC (collectively, the Federal Banking Agencies) finalized rules implementing the Advanced version of Basel II in December 2007. As discussed below in Basel III and U.S. Capital Rules, the Federal Banking Agencies recently amended these rules (as amended, the Advanced Approaches Rules). The Advanced Approaches Rules are mandatory for those institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 billion or more. We became subject to these rules at the end of 2012. Prior to full implementation of the Advanced Approaches framework, organizations must complete a qualification period of at least four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. We are expected to enter parallel run no earlier than January 1, 2015. We have completed the development of our Advanced Approaches implementation plan. Compliance with the Advanced Approaches Rules will require a material investment of resources in building processes and systems.

The Collins Amendment within the Dodd-Frank Act and the Federal Banking Agencies implementing final rules establish a capital floor so that organizations subject to the Advanced Approaches Rules may not hold less capital than would be required using the generally applicable risk-based and leverage capital calculations. Our current analysis suggests that our risk-weighted assets will increase under the Advanced Approaches framework, and therefore we would need to hold more regulatory capital in order to maintain a given capital ratio. We will continue to monitor regulators implementation of the new rules with respect to the institutions that are subject to them and assess the potential impact to us.

Table of Contents

Basel III and U.S. Capital Rules

In December 2009, the Basel Committee on Banking Supervision (the Basel Committee) released proposals for additional capital and liquidity requirements, which subsequently have been clarified and amended (Basel III). In September 2010, the Basel Committee announced a package of reforms that included detailed capital ratios and capital conservation buffers, subject to transition periods through 2018. In December 2010, the Basel Committee published a final framework on capital and liquidity, consistent in large part with the prior proposals. In November 2011, the Basel Committee adopted a framework that would require additional Tier 1 common capital for systemically important institutions. This surcharge would vary based on the firm s systemic importance as determined using five criteria (size, interconnectedness, lack of substitutability, cross-jurisdictional activity and complexity). As noted below, Federal Banking Agencies have stated that they intend to implement this surcharge, although the extent to which it would apply to us is unclear. In January 2014, the Basel Committee made changes to the leverage ratio rules to account for differences in national accounting frameworks.

The Federal Banking Agencies issued a rule in July 2013 implementing the Basel III capital framework developed by the Basel Committee as well as certain Dodd-Frank Act and other capital provisions (Final Rule). The Final Rule increases the minimum capital that we and other institutions are required to hold.

Prior to being revised in the Final Rule, the minimum risk-based capital requirements adopted by the Federal Banking Agencies followed Basel I and the Advanced Approaches for applicable banks and bank holding companies. See Advanced Approaches Rules, above. The Final Rule modified both Basel I and the Advanced Approaches (as modified, referred to respectively as Basel III Standardized and the Basel III Advanced Approaches).

The Final Rule increases the general risk-based and leverage capital requirements; significantly revises the definition of regulatory capital, including by eliminating certain items that constituted regulatory capital; establishes a minimum Tier 1 common equity requirement; introduces a new capital conservation buffer requirement; and (as noted below) updates the prompt corrective action framework to reflect the new regulatory capital minimums. For Basel III Advanced Approaches institutions like the Company and Banks, the Final Rule also implements a supplementary leverage ratio that incorporates a broader set of exposures and a new countercyclical capital buffer requirement.

Specifically, the Final Rule establishes for bank holding companies and banks a new minimum common equity Tier 1 capital ratio of 4.5 percent, adopts a leverage ratio of 4 percent (and removes the current 3 percent limited exception), and implements a capital conservation buffer of 2.5 percent. It also contains a supplementary leverage ratio of 3 percent and a countercyclical capital buffer of up to 2.5 percent (initially set to zero percent). Compliance with certain aspects of the Final Rule went into effect as of January 1, 2014 and other provisions will go into effect according to different start dates and phase-in periods.

Under the Final Rule, beginning on January 1, 2014, as a Basel III Advanced Approaches banking organization that has yet to enter or exit parallel run, we must use Basel III Standardized for calculating our regulatory capital, including as used in our capital ratios, subject to transition periods. In 2014, however, we will continue to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios. Beginning on January 1, 2015, we must use Basel III Standardized for calculating our risk-weighted assets in our regulatory capital ratios.

For information regarding our expectations of how the Final Rule impacts us, see MD&A Capital Management. It remains unclear whether and how the Federal Banking Agencies will account for changes in the leverage ratio recently published by the Basel Committee.

The Basel Committee also published a liquidity framework in December 2010, which was subsequently amended in January 2013 and January 2014. The liquidity framework includes two standards for liquidity risk supervision,

Table of Contents

each subject to observation periods and transitional arrangements. One standard promotes short-term resilience by requiring sufficient high-quality liquid assets to survive a stress scenario lasting for 30 days. This standard, the liquidity coverage ratio (LCR), is included in the amended liquidity framework. The other standard promotes longer-term resilience by requiring sufficient stable funding over a one-year period, based on the liquidity characteristics of assets and activities. This standard remains under development by the Basel Committee. We expect that minimum liquidity requirements for us and other institutions will increase as a result of the Basel III liquidity framework, though rules implementing the Basel III liquidity framework have not yet been finalized by the Federal Banking Agencies.

In October 2013, the Federal Banking Agencies issued an interagency notice of proposed rulemaking regarding the U.S. implementation of the Basel III liquidity coverage ratio (the Proposed LCR), which would apply to institutions with consolidated total assets of $250 billion or more or consolidated total on balance sheet foreign exposure of $10 billion or more (the same standard used for identifying institutions subject to the Advanced Approaches Rules) and their respective consolidated subsidiary depository institutions with total consolidated assets greater than $10 billion. The Proposed LCR would require us to maintain an amount of eligible high-quality, liquid assets that equals or exceeds 100% of our projected net cash outflows over a 30-day period (as calculated in accordance with the Proposed LCR). The Proposed LCR would begin to take effect in January 2015. While the Proposed LCR is generally consistent with the Basel LCR standard, it is more stringent in certain areas and accelerates the implementation timeframe. The Proposed LCR would require us to comply with the minimum LCR standard as follows: 80% by January 1, 2015; 90% by January 1, 2016; and 100% by January 1, 2017, and thereafter. The comment period for the Proposed LCR recently closed and so its financial impacts are currently difficult to estimate with any certainty. However, modification of the composition of our investment securities portfolio may be required to comply with the final rules, which may negatively impact the overall yield earned from the portfolio. Additionally, investment in new data processing systems may be required to comply with new daily calculation requirements contained in the final rule.

We will continue to monitor regulators implementation of the new capital and liquidity rules and assess the potential impact to us.

Market Risk Capital Rule

A market risk capital rule, which the Federal Banking Agencies amended in August 2012, supplements both the general risk-based capital rules and the Basel III Advanced Approaches Rules by requiring institutions subject to the rule to adjust their risk-based capital ratios to reflect the market risk in their trading activities. The rule applies to institutions with aggregate trading assets and liabilities equal to the lesser of (i) 10 percent or more of total assets or (ii) $1 billion or more. Currently, we are not subject to this rule but may become subject to it in the future.

FDICIA and Prompt Corrective Action

In general, the FDICIA subjects banks to significantly increased regulation and supervision. Among other things, the FDICIA requires Federal Banking Agencies to take prompt corrective action for banks that do not meet minimum capital requirements. The FDICIA establishes five capital ratio levels: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. Under applicable regulations, a bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10 percent, a Tier 1 risk-based capital ratio of at least 6 percent, a Tier 1 leverage capital ratio of at least 5 percent and is not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital measure. A bank is considered to be adequately capitalized if it maintains a total risk-based capital ratio of at least 8 percent, a Tier 1 risk-based capital ratio of at least 4 percent, a Tier 1 leverage capital ratio of at least 4 percent (3 percent for certain highly rated institutions), and does not otherwise meet the definition of well capitalized. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to adequately-capitalized institutions. The capital categories are determined solely for purposes of applying the FDICIA s prompt corrective action provisions, and such capital categories may not constitute an accurate representation of the Banks overall financial condition or prospects. As of December 31, 2013, each of the Banks met the requirements for a well-capitalized institution.

As noted above, the Final Rule updates the prompt corrective action framework to reflect new, higher regulatory capital minimums. This rule adjusts the definitions of well capitalized and adequately capitalized. For an insured depository institution to be well capitalized, it must maintain a total risk-based capital ratio of 10 percent or more; a Tier 1 capital ratio of 8 percent or more; a common equity Tier 1 capital ratio of 6.5 percent or more; and a leverage ratio of 5 percent or more. An adequately-capitalized depository institution must maintain a total risk-based capital ratio of 8 percent or more; a Tier 1 capital ratio of 6 percent or more; a common equity Tier 1 capital ratio of 4.5 percent or more; a leverage ratio of 4 percent or more; and, for Advanced Approaches institutions, a supplementary leverage ratio, which incorporates a broader set of exposures, of 3 percent or more. The revised prompt corrective action requirements become effective on January 1, 2015, other than the supplementary leverage ratio, which becomes effective on January 1, 2018.

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

Enhanced Prudential Standards and Other Requirements under the Dodd-Frank Act

With the enactment of the Dodd-Frank Act, because we are a bank holding company with consolidated assets of $50 billion or greater (a covered company), we are subject to certain enhanced prudential standards, including requirements that may be recommended by the Financial Stability Oversight Council (the Council) and implemented by the Federal Reserve and other regulators. As a result, we are becoming subject to more stringent standards and requirements than those applicable for smaller institutions. The Council also may issue recommendations to the Federal Reserve or other primary financial regulatory agency to apply new or heightened standards to risky financial activities or practices.

In 2011, the Federal Reserve finalized rules requiring us to implement resolution planning for orderly resolution in the event the Company faces material financial distress or failure. The FDIC has issued similar rules regarding resolution planning applicable to the Banks. In addition, in October 2012, the Federal Reserve issued a rule that implements the requirement in the Dodd-Frank Act that the Federal Reserve conduct annual stress tests on the capacity of our capital to absorb losses as a result of adverse economic conditions. The stress test rule also implements the requirement that we conduct our own semiannual stress tests and requires us to publish the results of the stress tests on our website or other public forum. The OCC finalized a similar stress test rule in October 2012, to implement the requirement that each of the Banks conduct annual stress tests.

In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential standards. The Federal Reserve finalized certain of the proposed rules on February 18, 2014 (Enhanced Standards Rule). The Enhanced Standards Rule, however, did not finalize the proposed single-counterparty credit limits or early remediation framework. Under the Enhanced Standards Rule, we must meet liquidity risk management standards, conduct internal liquidity stress tests, and maintain a 30-day buffer of highly liquid assets, in each case, consistent with the requirements of the rule.

The rule also requires that we establish an enterprise-wide risk management framework that includes a risk committee and a chief risk officer. Although not mandated by the Dodd-Frank Act, the OCC recently issued a similar proposal that applies heightened standards for risk management to large institutions subject to its supervision, including the

Banks.

In addition, the Enhanced Standards Rule requires that we comply with, and hold capital commensurate with the requirements of, any regulations adopted by the Federal Reserve relating to capital planning and stress tests. The Federal Reserve s capital plan rule is discussed in Dividends, Stock Repurchases and Transfers of Funds below.

We are required to comply with the new requirements of the Enhanced Standards Rule beginning on January 1, 2015. As the Enhanced Standards Rule was recently issued, we continue to conduct an assessment of the expected impact of the rule.

In addition to the provisions described throughout this section, the Dodd-Frank Act imposes new, more stringent standards and requirements with respect to bank and nonbank acquisitions and mergers and affiliate transactions. The Dodd-Frank Act also includes provisions related to corporate governance and executive compensation and new fees and assessments, among others.

The federal agencies have significant discretion in drafting the implementing rules and regulations of the Dodd-Frank Act. These rules may result in modifications to our business models and organizational structure, and may subject us to escalating costs associated with any such changes.

However, the full impact of the Dodd-Frank Act will not be known for many months or, in some cases, years. In addition, the Dodd-Frank Act requires various studies and reports to be delivered to Congress, which could result in additional legislative or regulatory action.

Investment in the Company and the Banks

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval.

Each of the Banks is an insured depository institution within the meaning of the Change in Bank Control Act. Consequently, federal law and regulations prohibit any person or company from acquiring control of us without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control is conclusively presumed if, among other things, a person or company acquires more than 25 percent of any class of our voting stock. A rebuttable presumption of control arises if a person or company acquires more than 10 percent of any class of voting stock and is subject to any of a number of specified control factors as set forth in the applicable regulations and policies.

Additionally, COBNA and CONA are banks within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions (the Financial Institution Holding Company Act). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions.

Dividends, Stock Repurchases and Transfers of Funds

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, a bank holding company with consolidated assets of $50 billion or more must submit a capital plan 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 nonobjection to the plan. The Federal Reserve s objection or nonobjection applies specifically to capital actions during the four quarters beginning with the second quarter of the second calendar year in the planning horizon. For the CCAR cycle under which capital plan submissions were due by January 6, 2014 (2014

CCAR cycle), the Federal Reserve s objection or nonobjection will apply to planned capital actions from the second quarter of 2014 through the first quarter of 2015.

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. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5 percent on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters. On September 24, 2013, the Federal Reserve released an interim final rule that incorporated Basel III capital rules into CCAR. For the first time, the 2014 CCAR cycle will require us to meet Basel III Standardized capital requirements, with appropriate phase-in provisions applicable to Basel III Advanced Approaches institutions during the CCAR planning horizon, under the supervisory severely adverse stress scenario, in addition to the capital plan rule s Tier 1 common ratio using Basel I definitions.

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

Deposit Insurance Assessments

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

Prior to passage of the Dodd-Frank Act, the FDIC had established a plan to restore the DIF in the face of recent insurance losses and future loss projections, which resulted in several rules that generally increased deposit insurance rates and purported to improve risk differentiation so that riskier institutions bear a greater share of insurance premiums. The Dodd-Frank Act reformed the management of the DIF in several ways: raised the minimum DRR to 1.35 percent (from the former minimum of 1.15 percent) and removed the upper limit on the DRR; required that the reserve ratio reach 1.35 percent by September 30, 2020 (rather than 1.15 percent by the end of 2016); required that in setting assessments, the FDIC must offset the effect of meeting the increased reserve ratio on small insured depository institutions; and eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reaches certain levels. The FDIC has set the DRR at 2 percent and, in lieu of dividends, has established progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels. The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average consolidated total assets minus average tangible equity. In February 2011, the FDIC finalized rules to implement this change that significantly modified how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater.

Source of Strength and Liability for Commonly-Controlled Institutions

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

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

FDIC Orderly Liquidation Authority

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

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

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

United Kingdom

In the United Kingdom, COBNA operates through Capital One (Europe) plc, which was established in 2000 and is an authorized payment institution regulated by the Financial Conduct Authority (the FCA) under the Payment Services Regulations 2009. COEP s indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation as an agreement corporation under the Federal Reserve s Regulation K.

Over the past few years, the U.K. government has made significant changes to the framework of financial services regulation. As part of these changes, in April 2013, the Financial Services Authority (FSA) was split into a new Prudential Regulatory Authority (PRA) and the FCA, with the FCA, rather than the PRA, regulating COEP. In April 2014, the FCA will take over regulation of the U.K. consumer credit regime from the Office of Fair Trading (the OFT). As a result of this change, the FCA will also regulate COEP s credit card lending activities.

During 2013, the FCA published several consultation papers setting forth its proposals to regulate consumer credit. Although the FCA intends to replicate the existing consumer credit regime through the introduction of a Consumer Credit Handbook, it is apparent from the draft version that some minor changes to requirements have been made. We expect the FCA to finalize the Consumer Credit Handbook in February 2014, and for it to become effective in April 2014.

Cross-border interchange fees continue to be under scrutiny from the European Commission (the EC) and the OFT. In May 2012, the EC held that MasterCard s interchange fees were anticompetitive, and the General Court upheld this decision. The General Court held that there were no merchant or consumer benefits that could justify the restriction on competition implied by the fee. On July 4, 2013, the European Court of Justice (ECJ) heard MasterCard s appeal of this decision. The ECJ s judgment is expected in the first quarter of 2014. In addition, the EC issued a statement against Visa to express its view that interchange fees are anticompetitive. The OFT has confirmed its own investigation will remain on hold until after the outcome of MasterCard s appeal. Further, on July 24, 2013, the EC published the proposed new Interchange Regulations which will cap debit interchange fees at 0.2% and credit interchange fees at 0.3%, but the cap is not expected to be effective until at least 2015.

Table of Contents

The EC has also issued a draft regulation which will replace the Data Protection Act 1998. This will be directly effective without the need for additional U.K. legislation. The date on which the regulation will come into force has not yet been confirmed, but it is expected to be placed before the European Parliament in spring 2014. There will likely be a two-year grace period to work towards compliance with the regulation; however, a shorter implementation period may be specified by the European Parliament. Key proposed changes that we expect would impact COEP include:

- Requirement on companies to notify any breach of the regulations to the Information Commissioner s Office (ICO) and to individuals whose data has been affected or compromised as a result of the breach;
- Increased powers, including the ability to assess fines, given to the ICO;
- Requirement to conduct a Privacy Impact Assessment for all areas of the business, including any changes to systems;
- Mandatory appointment of a data protection officer who must act independently and autonomously at all times; and
- Widening of the definition of personal data.

Canada

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

In 2013, there were three new, significant regulatory developments that affect credit cards issued by federally regulated financial institutions in Canada. These amendments could increase our operational and compliance costs and affect the types and terms of products that we offer in Canada.

In February 2013, amendments were made (the Amending Regulations) to the Proceeds of Crime (Money Laundering) and Terrorist Financing Regulations under the Proceeds of Crime (Money Laundering) and Terrorist Financing Act. The Amending Regulations prescribe additional requirements on financial institutions and intermediaries in relation to customer identification, customer monitoring, enhanced due diligence and ongoing scrutiny of customers activities. The Amending Regulations came into force on February 1, 2014.

In March 2013, Complaints (Banks, Authorized Foreign Banks and External Complaints Bodies) Regulations were made under the Bank Act (Canada) (the Complaints Regulations). In April 2013, the FCAC published Commissioner s

Guidance CG-12 Internal Dispute Resolution (the IDR Guidance). The Complaints Regulations require financial institutions to provide a person requesting or receiving a product or service with certain disclosures relating to contacting the FCAC and the financial institution s complaint process and specify the manner of such disclosures. The Complaints Regulations also require financial institutions to provide the public with certain information about their complaints process on an annual basis (the Annual Report) and require financial institutions to be members of an external complaint body that is approved by the Minister of Finance under the Bank Act (Canada). The IDR Guidance provides specific guidance regarding financial institutions internal dispute resolution (IDR) procedures including ensuring adequate resources, training, retention of complaint information, procedures relating to the Annual Report requirement, and timeframes of the IDR procedures. In addition, financial institutions written IDR procedures must be in language that is clear, simple and not misleading and financial institutions must demonstrate that their IDR procedures are accessible to consumers. The Complaints Regulations and the IDR Guidance came into force on September 2, 2013.

Table of Contents

Canada s new anti-spam legislation, an act to promote the efficiency and adaptability of the Canadian economy by regulating certain activities that discourage reliance on electronic means of carrying out commercial activities, and to amend the Canadian Radio-television and Telecommunications Commission Act, the Competition Act, the Personal Information Protection and Electronic Documents Act and the Telecommunications Act, also known as CASL (the Act) came into force in December 2013. The Act prohibits (subject to limited exceptions) the sending of a commercial electronic message unless the person to whom the message is sent has consented to receiving it and the message complies with prescribed form and content requirements. The Act also prohibits the installation of computer programs or software on another person s computer system without the express consent of the owner or authorized user of that computer system. The new rules surrounding the sending of commercial electronic messages will come into force on July 1, 2014. Provisions of the Act related to the unsolicited installation of computer programs or software will come into force on July 1, 2015, and the provisions providing for a private right of action for a contravention of the Act will come into force on July 1, 2017.

COMPETITION

Each of our business segments operates in a highly competitive environment, and we face competition in all aspects of our business from numerous bank and non-bank providers of financial services.

Our Credit Card business competes with international, national, regional and local issuers of Visa and MasterCard credit cards, as well as with American Express®, Discover Card®, private-label card brands, and, to a certain extent, issuers of debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit and other product features.

Our Consumer Banking and Commercial Banking businesses compete with national and state banks and direct banks for deposits, commercial and auto loans, mortgages and trust accounts and with savings and loan associations and credit unions for loans and deposits. Our competitors also include automotive finance companies, mortgage banking companies and other financial services providers that provide loans, deposits, and other similar services and products. In addition, we compete against non-depository institutions that are able to offer these products and services. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type could significantly change the competitive environment in which we conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, competition among direct banks is intense because online banking provides customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

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

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

Table of Contents

EMPLOYEES

A central part of our philosophy is to attract and retain a highly capable staff. We had 41,951 employees, whom we refer to as associates, as of December 31, 2013. None of our associates are covered under a collective bargaining agreement, and management considers our associate relations to be satisfactory.

ADDITIONAL INFORMATION

Geographic Diversity

Our consumer loan portfolios, including credit cards, are diversified across the United States with modest concentration in California, Texas, New York, Florida, and Illinois. We also have credit card loans in the U.K. and Canada. Our commercial loan portfolio is aligned to our branch footprint with concentrated in New York, Texas, Louisiana and New Jersey with some broader diversification across the United States driven by our specialty business. See MD&A Credit Risk Profile and Note 4 Loans for additional information.

Technology/Systems

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

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

To protect our systems and technologies, we employ security, backup and recovery systems and generally require the same of our third-party service providers. In addition, we perform, or cause to be performed, a variety of vulnerability and penetration testing on the platforms, systems and applications used to provide our products and services in an effort to ensure that any attacks on these platforms, systems and applications are unlikely to succeed. Despite these controls, Capital One, along with several other U.S. financial services providers, was targeted on several occasions with distributed denial-of-service (DDOS) attacks from sophisticated third parties that succeeded, on a few occasions, in temporarily limiting our ability to service customers through online platforms.

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation, and competition. We also undertake other measures to control access to and distribution of our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our

Table of Contents

industry. The ability of our competitors and other third parties to obtain such patents may adversely affect our ability to compete. Conversely, our ability to obtain such patents may increase our competitive advantage. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results.

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, 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; the projected impact and benefits of the acquisitions of ING Direct and 2012 U.S. card acquisitions (collectively, the Acquisitions); 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;

- the possibility that we may not fully realize the projected cost savings and other projected benefits of the Acquisitions;

- difficulties and delays in integrating the assets and businesses acquired in the Acquisitions;

business disruption following the Acquisitions;

diversion of management time on issues related to the Acquisitions, including integration of the assets and businesses acquired;

reputational risks and the reaction of customers and counterparties to the Acquisitions;

disruptions relating to the Acquisitions negatively impacting our ability to maintain relationships with customers, employees and suppliers;

changes in asset quality and credit risk as a result of the Acquisitions;

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;

Table of Contents

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 I Item 1A. Risk Factors in this Annual Report on Form 10-K.

Table of Contents

Item 1A. Risk Factors

Business Risks

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks of which we are aware at the time this Annual Report on Form 10-K has been filed, other risks may prove to be important in the future, including those that are not currently ascertainable. In addition to the factors discussed elsewhere in this Annual Report, other factors that could cause actual results to differ materially from our forward looking statements include:

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

We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom. The recent global recession resulted in a general tightening in the credit markets, lower levels of liquidity, reduced asset values (including commercial properties), sharp and prolonged declines in residential home values and sales volumes, reduced business profits, increased rates of business and consumer repayment delinquency, increased rates of business and consumer bankruptcy, and increased and prolonged unemployment, some of which have had a negative impact on our results of operations. Although the U.S economy has shown modest improvement, the recovery remains modest and uncertain. A recovery in any of our markets that is only shallow and very gradual, marked by continued elevated unemployment rates and reduced home prices, or another downturn, may have a material adverse effect on our financial condition and results of operations as customers default on their loans or maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

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

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

- Increases in bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our results of operations.

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

- The processes and models we use to estimate inherent losses may no longer be reliable because they rely on complex judgments, including assumptions and forecasts of economic conditions which may no longer be capable of accurate estimation in an unpredictable economic environment, which could have a negative impact on our results of operations.

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

Significant concern regarding the creditworthiness of some of the governments in Europe and South America and uncertainty stemming from U.S. debt and budget matters have contributed to volatility in the financial markets and led to greater economic uncertainty worldwide. Concerns about sovereign debt in Europe and South America and the U.S. debt could diminish economic recovery and lead to further stress in the financial markets, both globally and in the United States, which could have a negative impact on our financial results.

Table of Contents

Significant concern exists regarding risks associated with the normalization of global central bank policies. In particular, steps taken by the Federal Reserve to slow the pace of its balance sheet growth has resulted in significant financial market volatility. This change in Federal Reserve policy, coupled with similar actions by other central banks, has impacted economies globally, including the United States. These changes have particularly impacted certain emerging markets in countries whose growth prospects and currency valuations have proven vulnerable to normalization in the accommodative global central bank policies that have prevailed in recent years. The resulting financial market volatility and greater economic uncertainty worldwide could threaten the economic recoveries both globally and in the United States, which could have a negative impact on our financial results.

Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding. The interest rates that we pay on our securities are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising London Interbank Offering Rate (LIBOR) and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources.

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

Shorter-term interest rates have remained at historically low levels for a prolonged period of time. While longer-term interest rates have recently increased resulting in a steeper yield curve, they remain below historical averages. A flat yield curve combined with low interest rates generally leads to lower revenue and reduced margins because it would limit our opportunity to increase the spread between asset yields and funding costs. Any reversion to a flat yield curve coupled with low interest rates for a sustained period of time could have a material adverse effect on our earnings and our net interest margin.

The low interest rate environment also increases our exposure to prepayment risk in our mortgage portfolio and the mortgage-backed securities in our investment portfolio. Increased prepayments, refinancing or other factors that impact loan balances would reduce expected revenue associated with mortgage assets and could also lead to a reduction in the value of our mortgage servicing rights, which could have a negative impact on our financial results.

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

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

As a result of our large number of consumer accounts and because we have historically experienced higher delinquencies and a greater number of accounts charging off compared to our large bank peers, we face the risk of a heightened level of regulatory scrutiny with respect to our consumer products and services.

The Dodd-Frank Act, as well as the related rules and regulations adopted by various regulatory agencies, could have a significant adverse impact on our business, results of operations or financial condition. The Dodd-Frank Act is a comprehensive financial reform act that requires, among other things, enhanced prudential standards (including capital, liquidity, risk management, single-counterparty credit exposure limits, early remediation, and resolution planning), enhanced supervision (including stress testing), prohibitions on proprietary trading and investments in covered funds (referred to as the Volcker Rule) and increased transparency and regulation of derivatives trading. The Dodd-Frank Act also provides heightened expectations for risk management and regulatory oversight of all aspects of large financial institutions, including us. Many aspects of the law remain to be implemented under the rulemaking and regulatory authority of the SEC, the CFTC and federal banking regulators. The Dodd-Frank Act also created the CFPB, which regulates our businesses with respect to our compliance with certain consumer laws and regulations.

Although it is clear that the Dodd-Frank Act and implementing regulations materially impact large financial institutions like us, the rulemaking process has been progressing slowly, and we may not experience the ultimate impact of the Dodd-Frank Act for years. Though some aspects of the Dodd-Frank Act may significantly impact our financial condition or results of operations, other aspects of the law may not apply to us. Nevertheless, the law has increased our need to build new compliance processes and infrastructure and to otherwise enhance our risk management throughout all aspects of our business. The cumulative impact includes higher expectations for capital and liquidity, as discussed in more detail below under the header We May Not Be Able to Maintain Adequate Capital Levels or Liquidity, Which Could have a Negative Impact on Our Financial Results, and higher operational costs, which may further increase once regulators fully implement the law. In addition, U.S. government agencies charged with adopting and interpreting laws, rules and regulations, including under the Dodd-Frank Act, may do so in an unforeseen manner, including ways that potentially expand the reach of the laws, rules or regulations more than initially contemplated or currently anticipated.

Some rules and regulations may be subject to litigation or other challenges that delay or modify their implementation and impact on us. For example, rules implementing the Dodd-Frank Act s requirement that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction are currently subject to challenge. It is unclear how the ruling and appeal will impact the Federal Reserve s interchange fee rules. Future changes in the Federal Reserve s interchange fee rules could adversely impact revenue from our debit card business.

Under various state and federal statutes and regulations, we are required to observe various data security and privacy-related requirements, including establishing appropriate information security standards and safeguards, data security breach response programs and properly authenticating customers before processing or enabling certain types of transactions or interactions. Future federal and state legislation and regulation could further restrict how we collect, use, share and secure customer information. The failure to observe any one or more of these requirements could subject us to litigation or enforcement actions and impact some of our current or planned business initiatives.

The banking industry is subject to enhanced legal and regulatory scrutiny regarding debt collection practices from regulators, courts and legislators. Any future changes to our debt collection practices, whether mandated by regulators or otherwise, or any legal liabilities resulting from our debt collection practices, could have a material adverse impact on our financial condition.

In 2012, we were party to several consent orders and settlement agreements with certain federal agencies. On July 17, 2012, COBNA entered into consent orders with each of the OCC and the CFPB relating to oversight of our vendor sales practices of payment protection and credit monitoring products. On July 26, 2012, the Banks each entered into consent orders with each of the Department of Justice and the OCC relating to compliance with the Servicemembers Civil Relief Act, or the SCRA, and, in the case of the OCC orders, third-party management. In addition, in the first quarter of 2012, we closed the ING Direct acquisition. In its order approving the acquisition, the Federal Reserve Board required Capital One to enhance our risk-management systems and policies enterprise-wide to account for the changes to our business lines that would result from the ING Direct and 2012 U.S. card acquisitions. We are subject to heightened regulatory oversight by the federal banking regulators to ensure that we build systems and processes that are commensurate with the nature of our business. We expect this heightened oversight will continue for the foreseeable future until we meet the expectations of our regulators and can demonstrate that our systems and processes are sustainable.

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

We May Experience Increased Delinquencies And Credit Losses.

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

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

Estimates of Inherent Losses. The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimates of inherent losses and inadequate allowance for loan and lease losses. In cases where we modify a loan, if the modifications do not perform as anticipated we may be required to build additional allowance on these loans. The increase or release of allowances impacts our current financial results.

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

Business Mix. We engage in a diverse mix of businesses with a broad range of potential credit exposure. Our business mix could change in ways that could adversely affect the credit quality of our portfolio. Because we originate a relatively greater proportion of consumer loans in our loan portfolio compared to other large bank peers and originate both prime and subprime credit card accounts and auto loans, we may experience higher delinquencies and a greater number of accounts charging off compared to other large bank peers, which could result in increased credit losses and operating costs.

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

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

Collateral. Collateral, when we have it, could be insufficient to compensate us for loan losses. When customers default on their loans and we have collateral, we attempt to seize it where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Decreases in real estate values adversely affect the collateral value for our commercial lending and Home Loan activities, while the auto business is similarly exposed to collateral risks arising from the auction markets that determine used car prices. Therefore, the recovery of such property could be insufficient to compensate us for the value of these loans. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments. Trends in home prices are a driver of credit costs in the Home Loans business as they impact both the probability of default and the loss severity of defaults. Additionally, the potential volatility in the number of defaulted and modified loans from changes in home prices can create material impacts on the servicing costs of the business, fluctuations in credit marks and profitability in acquired portfolios and volatility in mortgage servicing rights valuations. Although home prices have generally appreciated recently, the slow economic recovery, shifts in monetary policy and potentially diminishing demands from investors could threaten or limit the recovery.

New York Concentration. Although our consumer lending is geographically diversified, approximately 40% of our commercial loan portfolio is concentrated in the New York metropolitan area. The regional economic conditions in the New York area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in, or a catastrophic event that disproportionately affects, the New York region could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations.

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

Certain of our subsidiaries, including GreenPoint Mortgage Funding, Inc. (GreenPoint), Capital One Home Loans, LLC and Capital One, N.A., as successor to Chevy Chase Bank (CCB), may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that we sell to investors in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. These subsidiaries also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud or other public disclosure-related claims, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by our originating subsidiaries. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation and the regulatory environment related to us and the industry, actual recoveries on the collateral, and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations. For additional information related to our mortgage loan repurchase and indemnification obligations and related reserves and our estimate of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels as of December 31, 2013, see Note 20-Commitments, Contingencies and Guarantees.

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

As a result of the Dodd-Frank Act and international accords, financial institutions are becoming subject to new and increased capital and liquidity requirements. Although U.S. regulators have finalized regulations for some of these requirements, there remains continued uncertainty as to the form the additional new requirements will take or how and when they will apply to us. As a result, it is possible that we could be required to increase our capital and/or liquidity levels above the levels in our current financial plans. These new requirements could have a negative impact on our ability to lend, grow deposit balances or make acquisitions and on our ability to make capital distributions in the form of increased dividends or share repurchases. Higher capital levels could also lower our return on equity. In addition, we could become subject to the Advanced Approaches framework as early as January 1, 2016 for purposes of the regulatory capital we will be required to maintain. Although we have current estimates of risk weight calculations under that framework, there remains uncertainty around future regulatory interpretations of certain of those calculations. Therefore, we cannot assure you that our current estimates will be correct and we may need to hold significantly more regulatory capital in the future than we currently estimate to maintain a given capital ratio.

Recent developments in capital and liquidity requirements that we expect will impact us include the following:

- In December 2010, the Basel Committee published a final framework on capital and in January 2013 published a revised framework on liquidity, together commonly known as Basel III. In July 2013, U.S. banking regulators finalized rules implementing the Basel III capital framework that, among other things: increase the general risk-based and leverage capital requirements; significantly revise the definition of regulatory capital, including by eliminating certain items that constituted regulatory capital; establish a minimum Tier 1 common equity requirement; introduce a new capital conservation buffer requirement; and update the prompt corrective action framework to reflect the new regulatory capital minimums.

- In November 2013, U.S banking regulators issued the Proposed LCR, which would require the Company and each of the Banks to maintain an amount of high quality liquid assets (as defined in the Proposed LCR) that is no less than 100 percent of its total net cash outflows over a prospective 30-calendar day period (as calculated in accordance with the proposed rule).

- Because we are a bank holding company with consolidated assets of more than $50 billion, we are subject to certain heightened prudential standards under the Dodd-Frank Act, including requirements that may be recommended by the Financial Stability Oversight Council and implemented by the Federal Reserve. As a result, we expect to be subject to more stringent standards and requirements than those applicable for smaller institutions, including risk-based capital requirements, leverage limits and liquidity requirements. In December 2011, the Federal Reserve released proposed rules beginning to implement the enhanced prudential requirements, including a detailed liquidity framework that would supplement the liquidity regulations implementing Basel III. If finalized as proposed, these requirements would increase our liquidity requirements and associated compliance and operational costs. The Federal Reserve also indicated that it plans to adopt a capital surcharge for certain larger institutions, but it is not clear to what extent the capital surcharge would apply to us.

Under the Federal Reserve s Capital Plan Rule, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions, such as dividends and share repurchases, in a process commonly referred to as CCAR. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and

25

analysis and methodologies used to assess capital adequacy, other qualitative factors at the discretion of the Federal Reserve in addition to the ability of the bank holding company to maintain capital above each minimum regulatory capital ratio and above a Tier 1 common ratio of 5% on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters. On September 24, 2013, the Federal Reserve released an interim final rule that stated, for the first time, that the 2014 CCAR cycle will require us to meet Basel III Standardized capital requirements, with appropriate phase-in provisions applicable to Advanced Approaches institutions during the CCAR planning horizon, under the supervisory severely adverse stress scenario in addition to the Capital Plan Rule s Tier 1 common ratio using Basel I definitions.

We consider various factors in the management of capital, including the impact of stress on our capital position, as determined by both our internal modeling and Federal Reserve modeling of our capital position in CCAR. In the 2013 stress test cycle, including CCAR, there was a large difference between our estimates of our capital levels under stress and the Federal Reserve s estimates of our capital levels under stress. In the 2014 stress test cycle, including CCAR, the difference could be larger because, in addition to using its own assumptions in modeling credit losses and pre-provision net revenue, we expect the Federal Reserve will use its own assumptions in modeling balance sheet size and composition. Therefore, although our estimated capital levels under stress suggest that we have substantial capacity to return capital to shareholders and remain well capitalized under stress, it is possible that the Federal Reserve s modeling may result in a materially lower capacity to return capital to shareholders than our estimates.

As a financial institution with consolidated assets of more than $250 billion, we became subject to the Advanced Approaches framework at the end of 2012. Prior to full implementation of the Advanced Approaches framework, organizations must complete a qualification period of four consecutive quarters, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. We expect to enter parallel run no earlier than January 1, 2015. This will require completing a written implementation plan and building processes and systems to comply with the rules. Compliance with the Advanced Approaches rules will require a material investment of resources.

See Item 1. Business-Supervision and Regulation for additional information.

We Face Risk Related To Our Operational, Technological And Organizational Infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire necessary operational, technological and organizational infrastructure. We are in the process of completing significant development projects to complete the systems integration of prior acquisitions and to build a scalable infrastructure in our Consumer and Commercial Banking businesses. For example, we are investing in infrastructure in the Commercial Banking business intended to assist with effective execution of key processes and improve loan origination and underwriting platforms. The 2012 U.S. card acquisition involved the transfer of intellectual property, servicing platforms, infrastructure, contact centers and a significant number of employees. The decoupling and transitioning of these assets, infrastructure and systems from HSBC s current systems and operations and integrating them into our own business operations has been, and we expect it to continue to be, a highly complex process. These infrastructure changes, upgrades and integrations may cause disruptions to our existing and acquired businesses, including, but not limited to, systems interruptions, transaction processing errors, interruptions to collection processes and system conversion delays, all of which could have a negative impact on us. In addition, we have entered into numerous transitional service arrangements with HSBC entities that will provide for services associated with the decoupling and transition of the business. Under these arrangements, HSBC provides certain services to us and we provide certain services to HSBC. These transitional service arrangements will continue for various dates until the separation of the business from HSBC is complete, and during that time we will rely on the ability of the applicable HSBC entities to provide these services. The complexities and requirements of these arrangements will increase the operational risk associated with the transition and integration of the business, and this increased risk could lead to unanticipated expenses, disruptions to our operations or other adverse consequences.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors related to failed or inadequate processes, inaccurate models, faulty or disabled computer systems, fraud by employees or persons outside of our company and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems which we use to manage our internal financial and other systems, interface with our customers and develop and implement effective marketing campaigns. We also depend on models to measure risks, estimate certain financial values, determine pricing on certain products, assess capital adequacy and calculate regulatory capital levels. If we implement or design our models poorly or use inaccurate assumptions in our models, business decisions based on the output of the models may be adversely affected. Moreover, information we disclose to investors and our regulators based on poorly designed or implemented models could be inaccurate. Some decisions our regulators make, including those related to our capital distribution plans, may be adversely impacted if they perceive the quality of our models to be insufficient.

Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality and reliability of our operational and technology systems. Any disruptions, failures or inaccuracies of our operational and technology systems and models, including those associated with improvements or modifications to such systems and models, could cause us to be unable to market and manage our products and services, manage our risk or to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations.

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

In addition, our ongoing investments in infrastructure, which may be necessary to maintain a competitive business, integrate acquisitions and establish scalable operations, may increase our expenses. Further, as our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. As cybersecurity threats continue to evolve, we may also be required to expend significant additional resources to continue to modify or strengthen our protective security measures, investigate and remediate any vulnerabilities of our information systems and infrastructure or invest in new technology designed to mitigate security risks. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We Could Incur Increased Costs or Reductions In Revenue Or Suffer Reputational Damage And Business Disruptions In the Event Of The Theft, Loss or Misuse Of Information, Including As A Result Of A Cyber-Attack.

Our products and services involve the gathering, storage and transmission of sensitive information regarding our customers and their accounts. Our ability to provide such products and services, many of which are web-based, relies upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services, we use information systems and infrastructure that we and third party service providers operate. We also have arrangements in place with retail partners and other third parties where we share and receive information about their customers who are or may become our customers. As a financial institution, we also are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs. If our information systems or infrastructure experience a significant disruption or breach, it could lead, depending on the nature of the disruption or breach, to unauthorized access to personal or confidential information of our customers in our possession or unauthorized access to our proprietary information, software, methodologies and business secrets. In addition, if our partners, retailers or other market participants experience a disruption or breach, depending on the nature of the disruption or breach, it could lead to unauthorized transactions on Capital One accounts or unauthorized access to personal or confidential information maintained by those entities. A disruption or breach such as these could result in significant legal and financial exposure, regulatory intervention, remediation costs, card reissuance, supervisory liability, damage to our reputation or loss of confidence in the security of our systems, products and services that could adversely affect our business.

Information security risks for large financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists, formal and informal instrumentalities of foreign governments and other external parties. As noted above, our operations rely on the secure processing, transmission and storage of confidential information in our computer systems and networks. Our businesses rely on our digital technologies, computer and email systems, software and networks to conduct their operations. In addition, to access our products and services, our customers may use computers, smartphones, tablet PCs and other mobile devices that are beyond our security control systems. Although we believe we have a robust suite of authentication and layered information security controls, our technologies, systems, networks and our customers devices may become the target of cyber-attacks or other attacks that could result in the unauthorized release, gathering, monitoring, misuse, loss or destruction of our or our customers confidential, proprietary or other information, including access to accounts with online functionality, which could result in disruptions and damage to the business operations or finances of Capital One, our customers or other third parties. For example, we and other U.S. financial services providers were targeted recently on several occasions with distributed denial-of-service (DDOS) attacks from sophisticated third parties. DDOS attacks are designed to saturate the targeted online network with excessive amounts of network traffic, resulting in slow response times or even causing the site to be temporarily unavailable. On at least one occasion, a DDOS attack successfully disrupted our consumer online banking services for a period of time, which had a non-material impact on our business. Although we have not experienced any material losses relating to cyber incidents, there can be no assurance that we will not suffer such losses in the future. If future attacks like these are successful or if customers are unable to access their accounts online for other reasons, it could adversely impact our ability to service customer accounts or loans, complete financial transactions for our customers or otherwise operate any of our businesses or services. In addition, a breach or attack affecting one of our third-party service providers or partners could harm our business even if we do not control the service that is attacked.

Because the methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently, are increasingly sophisticated and often are not fully recognized or understood until after they have been launched, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures. In addition, the increasing prevalence of cyber-attacks and other efforts to breach or disrupt our systems or those of our partners, retailers or other market participants has led, and will likely continue to lead, to increased costs to us with respect to preventing, mitigating and remediating these risks, as well as any related attempted fraud. Further, successful cyber-attacks at other large financial institutions or other market participants, whether or not we are impacted, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general which could result in reduced use of our financial products. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

The Growth Of Our Direct Banking Business Presents Certain Risks.

We operate the largest online direct banking institution in the U.S., with approximately $104 billion in deposits as of December 31, 2013. While direct banking represents a significant opportunity to attract new customers that value greater and more flexible access to banking services at reduced costs, it also presents significant risks. In addition to the software, infrastructure and cyber-attack risks discussed above, we face risks related to direct banking, including facing strong competition in the direct banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. In addition, the effects of a competitive environment may be exacerbated by the flexibility of direct banking and the increasing financial and technological sophistication of our customer base. Customers could also close their online accounts or reduce balances or deposits in favor of products and services offered by competitors for other reasons. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation.

Our direct banking business is dependent on our ability to process, record and monitor a large number of complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, we could be materially adversely affected. Third parties with which we do business could also be sources of operational risk, particularly in the event of breakdowns or failures of such parties own systems. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, cyber-attacks, including DDOS discussed above, natural disasters, other damage to property or physical assets or events arising from local or larger scale politics, including terrorist acts. Any of these occurrences could diminish our ability to operate our direct banking business, service customer accounts, and protect customers information, or result in potential liability to customers, reputational damage, regulatory intervention and customers loss of confidence in our direct banking business, any of which could result in a material adverse effect.

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers, Acquisitions and Strategic Partnerships.

We have engaged in merger and acquisition activity and entered into strategic partnerships over the past several years and may continue to engage in such activity in the future. For example, in recent years, we have completed the Beech Street Capital, ING Direct and 2012 U.S. card acquisitions. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios.

Any merger, acquisition or strategic partnership we undertake will entail certain risks, which may materially and adversely affect our results of operations. If we experience greater than anticipated costs to integrate acquired businesses into our existing operations or are not able to achieve the anticipated benefits of any merger, acquisition or strategic partnership, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with partners, clients, customers, depositors and employees or to achieve the anticipated benefits of any merger, acquisition or strategic partnership. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

In addition, we may face the following risks in connection with any merger, acquisition or strategic partnership:

New Businesses and Geographic or Other Markets. Our merger, acquisition or strategic partnership activity may involve our entry into new businesses and new geographic areas or other markets which present risks resulting from our relative inexperience in these new businesses or markets. These new businesses or markets may change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.

Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets. We cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through acquisitions or strategic partnerships. In addition, we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.

Accuracy of Assumptions. In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger, acquisition or strategic partnership that may be, or may prove to be, inaccurate, including as a result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition. Assumptions we might make when considering a proposed merger, acquisition or strategic partnership may relate to numerous matters, including:

- projections of a target or partner company s future net income and our earnings per share;
- our ability to issue equity and debt to complete any merger or acquisition;
- our expected capital structure and capital ratios after any merger, acquisition or strategic partnership;
- projections as to the amount of future loan losses in any target or partner company s portfolio;
- the amount of goodwill and intangibles that will result from any merger, acquisition or strategic partnership;
- certain purchase accounting adjustments that we expect will be recorded in our financial statements in connection with any merger, acquisition or strategic partnership;
- cost, deposit, cross-selling and balance sheet synergies in connection with any merger, acquisition or strategic partnership;
- merger, acquisition or strategic partnership costs, including restructuring charges and transaction costs;
- our ability to maintain, develop and deepen relationships with customers of a target or partner company;
- our ability to grow a target or partner company s customer deposits and manage a target or partner company s assets and liabilities;

higher than expected transaction and integration costs and unknown liabilities as well as general economic and business conditions that adversely affect the combined company following any merger or acquisition transaction;

the extent and nature of regulatory oversight over a target or partner company;

projected or expected tax benefits or assets;

accounting matters related to the target or partner company, including accuracy of assumptions and estimates used in preparation of financial statements such as those used to determine allowance for loan losses, fair value of certain assets and liabilities, securities impairment and realization of deferred tax assets;

our expectations regarding macroeconomic conditions, including the unemployment rate, housing prices, the interest rate environment, the shape of the yield curve, inflation and other economic indicators; and other financial and strategic risks associated with any merger or acquisition.

Target Specific Risk. Assets and companies that we acquire, or companies that we enter into strategic partnerships with, will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed above, certain of our merger, acquisition or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.

Reputational Risk and Social Factors May Impact Our Results.

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business practices or our financial health. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us. Negative public opinion could result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, inadequate protection of customer information, or sales and marketing, and from actions taken by regulators or other persons in response to such conduct. In addition, third parties with whom we have important relationships may take actions over which we have limited control that could negatively impact perceptions about us.

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

Damage To Our Brands Could Impact Our Financial Performance.

Our brands have historically been, and we expect them to continue to be, very important to us. As with many financial services institutions, maintaining and enhancing our brand will depend largely on our ability to be a technology leader and to continue to provide high-quality products and services. Negative public perception of our brands could result from actual or alleged conduct in any number of activities, including lending practices, security breaches, corporate governance, regulatory compliance and the use and protection of customer information, as well as from actions taken by government regulators and community organizations in response to that conduct. If we fail to maintain and enhance our brands, or if we incur excessive expenses in this effort, our business, results of operations and financial condition could be materially and adversely affected.

We Face Intense Competition in All of Our Markets.

We operate in a highly competitive environment, and we expect competitive conditions to continue to intensify. We face intense competition both in making loans and attracting deposits. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality of our customer service and experience. Price competition for loans might result in origination of fewer loans or earning less on our loans. We expect that competition will continue to increase with respect to most of our products. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. In addition, some of our competitors, including new and emerging competitors in the digital and mobile payments space, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage.

Table of Contents

We have significantly expanded our partnership business over the past several years with the additions of a number of credit card partnerships. The market for key business partners, especially in the Card business, is very competitive, and we cannot assure you that we will be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense in acquiring and developing the relationships. The loss of any of our business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

In such a competitive environment, we may lose entire accounts or may lose account balances to competing firms, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, unexpected customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain those deposits, may increase our expenses and therefore reduce our earnings.

If We Do Not Adjust to Rapid Changes in the Financial Services Industry, Our Financial Performance May Suffer.

Our ability to deliver to stockholders strong financial performance and returns on investment will depend in part on our ability to expand the scope of available financial services to meet the needs and demands of our customers, including by marketing new products to our customer base. Our ability to meet our customers needs and expectations is key to our ability to grow revenue and earnings. Many of our competitors are focusing on cross-selling their products and developing new products or technologies, which could affect our ability to maintain or grow existing customer relationships or require us to offer lower interest rates or fees on our lending products or higher interest rates on deposits. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the accelerating pace of consolidation among financial service providers, all of which may affect our customers expectations and demands. If we do not successfully anticipate and adjust to changes in the financial service industry, our business and financial results could be negatively affected.

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

Like other financial institutions, our business may be sensitive to market interest rate movement and the performance of the capital markets. Changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings. In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for mortgage, auto and other term loans and may affect the balances customers carry on their credit cards. These changes can reduce the overall yield on our earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. In addition, changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Such market changes could also have a negative impact on the valuation of assets for which we provide servicing. Finally, the Final Rule requires that most amounts reported in Accumulated Other Comprehensive Income (AOCI), including unrealized gains and losses on securities designated as available for sale, be included in our regulatory capital calculations. Changes in interest rates or market valuations that result in unrealized losses on components of AOCI could therefore impact our regulatory capital ratios negatively.

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

Our Business Could Be Negatively Affected If We Are Unable to Attract, Retain and Motivate Skilled Senior Leaders.

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

Our Businesses are Subject to the Risk of Increased Litigation.

Our businesses are subject to increased litigation risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry, the structure of the credit card industry and business practices in the mortgage lending business. Given the inherent uncertainties involved in litigation, and the very large or indeterminate damages sought in some matters asserted against us, there can be significant uncertainty as to the ultimate liability we may incur from litigation matters. The finding, or even the assertion, of substantial legal liability against us could have a material adverse effect on our business and financial condition and could cause significant reputational harm to us, which could seriously harm our business.

We Face Risks from Unpredictable Catastrophic Events.

Despite our substantial business contingency plans, the impact from natural disasters and other catastrophic events, including terrorist attacks, may have a negative effect on our business and infrastructure, including our information technology systems. In addition, if a natural disaster or other catastrophic event occurs in certain regions where our business and customers are concentrated, such as the New York metropolitan area, we could be disproportionately impacted as compared to our competitors. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

We Face Risks from the Use of or Changes to Estimates in Our Financial Statements.

Pursuant to generally accepted accounting principles in the U.S. (U.S. GAAP), we are required to use certain assumptions and estimates in preparing our financial statements, including, but not limited to, estimating our allowance for loan and lease losses and the fair value of certain assets and liabilities. In addition, the FASB, the SEC and other regulatory bodies may change the financial accounting and reporting standards, including those related to assumptions and estimates we use to prepare our financial statements, in ways that we cannot predict and that could impact our financial statements. If actual results differ from the assumptions or estimates underlying our financial statements or if financial accounting and reporting standards are changed, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our consolidated financial statements, see Note

1-Summary of Significant Accounting Policies.

Table of Contents

Our Ability To Receive Dividends From Our Subsidiaries Could Affect Our Liquidity And Ability To Pay Dividends.

We are a separate and distinct legal entity from our subsidiaries, including the Banks. Dividends to us from our direct and indirect subsidiaries, including the Banks, have represented a major source of funds for us to pay dividends on our common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common stockholders, make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

The Soundness of Other Financial Institutions Could Adversely Affect Us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. We have exposure to an increasing number of financial institutions and counterparties. These counterparties include institutions that may be exposed to various risks over which we have little or no control, including European or U.S. sovereign debt that is currently or may become in the future subject to significant price pressure, rating agency downgrade or default risk.

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions.

Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

Item 1B. Unresolved Staff Comments

None.

Table of Contents

Item 2. Properties

Our corporate and banking real estate portfolio consists of a combined total of approximately 16.2 million square feet of owned or leased office and retail space, used to support our business. Of this overall portfolio, approximately 10.6 million square feet of space are dedicated for various corporate office uses and approximately 5.6 million square feet of space are for bank branches and related offices.

Our 10.6 million square feet of corporate office space consists of approximately 5.5 million square feet of leased space and 5.1 million square feet of owned space. Our headquarters is located in McLean Virginia, and is included in our corporate office space. We maintain office space primarily in Virginia, Texas, Illinois, New York, Louisiana, Delaware, and Maryland.

Our 5.6 million square feet of banking branch and branch/office space consists of approximately 2.6 million square feet of leased space and 3.0 million square feet of owned space, including branches in locations across New York, Louisiana, Texas, Maryland, Virginia, New Jersey, and the District of Columbia. See Note 8 Premises, Equipment & Lease Commitments for information about our premises.

Item 3. Legal Proceedings

The information required by Item 3 is included in Note 20 Commitments, Contingencies, Guarantees, and Others.

Item 4. Mine Safety Disclosures

Not applicable.

Table of Contents

PART II

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

Market Information

Our common stock is listed on the NYSE and is traded under the symbol COF. As of January 31, 2014, there were 13,280 holders of record of our common stock. The table below presents the high and low closing sales prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

	Sales Price		Cash
Quarter ended	**High**	**Low**	**Dividends**
2013:			
December 31	**$ 76.61**	**$ 67.83**	**$ 0.30**
September 30	**69.70**	**63.59**	**0.30**
June 30	**62.81**	**52.76**	**0.30**
March 31	**62.88**	**50.80**	**0.05**
2012:			
December 31	$ 61.40	$ 54.77	$ 0.05
September 30	59.37	53.36	0.05
June 30	56.36	48.40	0.05
March 31	57.15	43.75	0.05

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under Part I Item 1. Business Supervision and Regulation Dividends, Stock Repurchases and Transfers of Funds , MD&A Capital Management Dividend Policy and Stock Purchases , and Note 12 Regulatory and Capital Adequacy .

Securities Authorized for Issuance Under Equity Compensation Plans

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

Table of Contents

Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared with an overall stock market index, the S&P Composite 500 Stock Index (S&P 500 Index), and a published industry index, the S&P Financial Composite Index (S&P Financial Index), over the five-year period commencing December 31, 2008, and ending December 31, 2013. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

Comparison of 5-Year Cummulative Total Return

(Capital One, S&P 500 Index and S&P Financial Index)

	2008	2009	2010	2011	2012	2013
Capital One	$ 100.00	$ 123.91	$ 138.25	$ 137.97	$ 189.70	$ 254.55
S&P 500 Index	100.00	123.45	139.24	139.23	157.90	204.63
S&P Financial Index	100.00	114.80	127.24	103.82	131.07	174.60

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2013.

Table of Contents

Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock during the fourth quarter of 2013.

(Dollars in millions, except per share information)	Total Number of Shares Purchased	Average Price Paid per Share[3]	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount Yet to be Purchased Under the 2013 Stock Repurchase Plan[3]
October 1-31, 2013				
Open market repurchases[1][2]	**5,589,378**	**$ 70.16**	5,576,988	$ 353
November 1-30, 2013				
Open market repurchases[1][2]	**3,221,055**	**69.74**	3,220,200	128
December 1-31, 2013				
Open market repurchases[1][2]	**1,788,539**	**72.09**	1,777,785	
Total	**10,598,972**	**$ 70.36**	10,574,973	

[1] Primarily comprised of repurchases under the $1 billion common stock repurchase program (2013 Stock Repurchase Program) authorized by our Board of Directors and announced on July 2, 2013, which authorized repurchases through March 31, 2014. As of December 31, 2013 we completed the repurchase program. Shares purchased under the 2013 Stock Repurchase Program are considered treasury stock.

[2] Includes 12,390 shares, 855 shares and 10,754 shares during October, November and December 2013, respectively for shares purchased and share swaps made in connection with stock option exercises and the withholding of shares to cover taxes on restricted stock awards whose restrictions have lapsed.

[3] The amounts exclude commission costs.

Item 6. Summary of Selected Financial Data

The following table presents selected consolidated financial data and performance metrics for the five-year period ended December 31, 2013. Certain prior period amounts have been reclassified to conform to the current period presentation. We prepare our consolidated financial statements based on U.S. GAAP, which we refer to as our reported results. This data should be reviewed in conjunction with our audited consolidated financial statements and related notes and with the MD&A included in this Report. The historical financial information presented may not be indicative of our future performance. The comparability of our results of operations between reported periods is impacted by the following transactions completed in 2013 and 2012 :

On November 1, 2013, we completed the acquisition of Beech Street Capital, a privately-held, national originator and servicer of Fannie Mae, Freddie Mac and FHA multifamily commercial real estate loans.

On September 6, 2013, we completed the Portfolio Sale to Citibank. Pursuant to the agreement we received $6.4 billion for the net portfolio assets.

On May 1, 2012, we closed the 2012 U.S. card acquisition. At closing, we acquired approximately 27 million new active accounts, $27.8 billion in outstanding credit card receivables designated as held for investment and $327 million in other net assets.

On February 17, 2012, we completed the ING Direct acquisition. The acquisition resulted in the addition of loans of $40.4 billion, other assets of $53.9 billion and deposits of $84.4 billion as of the acquisition date.

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 CCB acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, commonly referred to as SOP 03-3). The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $28.6 billion and $37.1 billion as of December 31, 2013 and 2012, respectively. The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows resulting from further credit deterioration will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge offs are not recorded until the expected credit losses within the nonaccretable difference is depleted. In addition, Acquired Loans are not initially classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these Acquired Loans. For additional information, see MD&A Credit Risk Profile and Note 4 Loans.

39

Table of Contents

Five-Year Summary of Selected Financial Data

		Year Ended December 31,				Change	
rs in millions, except per share data as noted)	2013	2012	2011	2010[1]	2009	2013 vs. 2012	2012 201
e statement							
t income	**$ 19,898**	$ 18,964	$ 14,987	$ 15,353	$ 10,664	**5%**	
t expense	**1,792**	2,375	2,246	2,896	2,967	**(25)**	
erest income	**18,106**	16,589	12,741	12,457	7,697	**9**	
terest income[2]	**4,278**	4,807	3,538	3,714	5,286	**(11)**	
et revenue[3]	**22,384**	21,396	16,279	16,171	12,983	**5**	
on for credit losses[4]	**3,453**	4,415	2,360	3,907	4,230	**(22)**	
terest expense[5]	**12,514**	11,946	9,332	7,934	7,417	**5**	
e from continuing operations before income taxes	**6,417**	5,035	4,587	4,330	1,336	**27**	
e tax provision	**2,025**	1,301	1,334	1,280	349	**56**	(
e from continuing operations, net of tax	**4,392**	3,734	3,253	3,050	987	**18**	
om discontinued operations, net of tax	**(233)**	(217)	(106)	(307)	(103)	**(7)**	(10
come	**4,159**	3,517	3,147	2,743	884	**18**	
nds and undistributed earnings allocated to pating securities	**(17)**	(15)	(26)			**(13)**	
ed stock dividends[6]	**(53)**	(15)			(564)	**(253)**	
come available to common shareholders	**$ 4,089**	$ 3,487	$ 3,121	$ 2,743	$ 320	**17%**	
on share statistics							
earnings per common share:							
come from continuing operations	**$ 7.45**	$ 6.60	$ 7.08	$ 6.74	$ 0.99	**13%**	(
om discontinued operations	**(0.40)**	(0.39)	(0.23)	(0.67)	(0.24)	**(3)**	(7
come (loss) per common share. .	**$ 7.05**	$ 6.21	$ 6.85	$ 6.07	$ 0.75	**14%**	(
d earnings per common share:							
come from continuing operations	**$ 7.35**	$ 6.54	$ 7.03	$ 6.68	$ 0.98	**12%**	(
om discontinued operations	**(0.39)**	(0.38)	(0.23)	(0.67)	(0.24)	**(3)**	(6
come (loss) per common share. .	**$ 6.96**	$ 6.16	$ 6.80	$ 6.01	$ 0.74	**13%**	(
nds per common share.	**$ 0.95**	$ 0.20	$ 0.20	$ 0.20	$ 0.53	**375%**	
on dividend payout ratio[7]	**13.48%**	3.22%	2.92%	3.29%	70.67%	**1,026bps**	
price per common share at period end.	**$ 76.61**	$ 57.93	$ 42.29	$ 42.56	$ 38.34	**32%**	
value per common share at period end.	**72.89**	69.56	64.51	58.62	59.04	**5**	

narket capitalization at period end	**43,875**	33,727	19,301	19,271	17,268	**30**
ge balances						
held for investment[8]	**$ 192,614**	$ 187,915	$ 128,424	$ 128,526	$ 99,787	**3%**
t-earning assets	**266,423**	255,079	175,265	175,683	145,552	**4**
ssets	**297,284**	286,602	199,718	200,114	171,598	**4**
t-bearing deposits	**187,700**	183,314	109,644	104,743	103,078	**2**
eposits	**209,045**	203,055	126,694	119,010	115,601	**3**
vings	**37,807**	38,025	38,022	49,620	23,522	**(1)**
on equity	**40,722**	36,996	28,579	24,941	25,177	**10**
tockholders equity	**41,575**	37,327	28,579	24,941	26,606	**11**

40

	Year Ended December 31,					Change	
ars in millions, except per share data as noted)	2013	2012	2011	2010[(1)]	2009	2013 vs. 2012	2012 v 2011
ted performance metrics							
ase volume[(9)]	**$ 201,074**	$ 180,599	$ 135,120	$ 106,912	$ 102,068	**11%**	34
net revenue margin[(10)]	**8.40%**	8.39%	9.29%	9.20%	8.92%	**1bps**	(90
terest margin[(11)]	**6.80**	6.50	7.27	7.09	5.29	**30**	(77
harge-offs	**$ 3,934**	$ 3,555	$ 3,771	$ 6,651	$ 4,568	**11%**	(6
harge-off rate[(12)]	**2.04%**	1.89%	2.94%	5.18%	4.58%	**15bps**	(105
harge-off rate (excluding Acquired Loans)[(13)]	**2.45**	2.34	3.06	5.45	4.94	**11**	(72
n on average assets[(14)]	**1.48**	1.30	1.63	1.52	0.58	**18**	(33
n on average tangible assets[(15)]	**1.56**	1.38	1.75	1.64	0.63	**18**	(37
n on average common equity[(16)] .	**10.61**	10.01	11.29	12.23	1.68	**60**	(128
n on average tangible common equity[(17)]	**17.44**	17.31	22.11	27.94	3.74	**13**	(480
y-to-assets ratio[(18)]	**13.98**	13.02	14.31	12.46	15.50	**96**	(129
nterest expense as a % of average loans held for ment[(19)]	**6.50**	6.36	7.27	6.17	7.43	**14**	(91
ency ratio[(20)]	**55.91**	55.83	57.33	49.06	56.21	**8**	(150
ive income tax rate from continuing operations	**31.56**	25.84	29.08	29.56	26.16	**572**	(324

	December 31,					Change	
s in millions except per share data as noted)	2013	2012	2011	2010[(1)]	2009	2013 vs. 2012	2012 v 2011
e sheet (period end)							
held for investment[(8)]	**$ 197,199**	$ 205,889	$ 135,892	$ 125,947	$ 90,619	**(4)%**	1
-earning assets	**265,170**	280,096	179,878	172,071	139,751	**(5)**	1
ssets	**297,048**	312,918	206,019	197,503	169,646	**(5)**	1
-bearing deposits.	**181,880**	190,018	109,945	107,162	102,370	**(4)**	7
eposits	**204,523**	212,485	128,226	122,210	115,809	**(4)**	6
ings	**40,654**	49,910	39,561	41,796	21,014	**(19)**	2
on equity	**40,891**	39,646	29,666	26,541	26,590	**3**	1
ockholders equity.	**41,744**	40,499	29,666	26,541	26,590	**3**	1
quality metrics (period end)							
nce for loan and lease losses	**$ 4,315**	$ 5,156	$ 4,250	$ 5,628	$ 4,127	**(16)%**	2
nce as a % of loans held of investment vance coverage ratio)	**2.19%**	2.50%	3.13%	4.47%	4.55%	**(31)bps**	(6
nce as a % of loans held of investment ing Acquired Loans)[(13)]	**2.54**	3.02	3.22	4.67	4.95	**(48)**	(2
y performing delinquency rate	**2.63**	2.70	3.35	3.52	3.98	**(7)**	(6
y performing delinquency rate (excluding ed Loans)[(13)]	**3.08**	3.29	3.47	3.68	4.32	**(21)**	(
y delinquency rate	**2.96**	3.09	3.95	4.23	N/A	**(13)**	(8
y delinquency rate (excluding Acquired 13)	**3.46**	3.77	4.09	4.43	N/A	**(31)**	(1
l ratios							
common ratio[(21)]	**12.23%**	10.96%	9.67%	8.77%	10.62%	**127bps**	129b
isk-based capital ratio[(22)].	**12.61**	11.34	12.01	11.63	13.75	**127**	(6
sk-based capital ratio[(23)] .	**14.73**	13.56	14.86	16.83	17.70	**117**	(1

le common equity (TCE) ratio[(24)]	**8.93**	7.89	8.20	6.84	8.03	**104**	(
ates							
ne equivalent employees (in thousands)	**42.0**	39.6	30.5	25.7	25.9	**6%**	

41

Table of Contents

	Year ended December 31,					Change	
	2013	**2012**	**2011**	**2010(1)**	**2009**	**2013 vs. 2012**	**2012 vs. 2011**
Managed metrics(25)							
Average loans held for investment	**$ 192,614**	$ 187,915	$ 128,424	$ 128,622	$ 143,514	**3%**	46%
Average interest-earning assets	**266,423**	255,079	175,341	175,757	186,218	**4**	45
Period-end loans:							
Period-end on-balance sheet loans held for investment	**197,199**	205,889	135,892	125,947	90,619	**(4)**	52
Period-end off-balance sheet securitized loans					46,184		
Total period-end managed loans	**$ 197,199**	$ 205,889	$ 135,892	$ 125,947	$ 136,803	**(4)%**	52%
Period-end total loan accounts (in millions)	**95.6**	122.1	70.0	37.4	37.8	**(22)%**	74%
30+ day performing delinquency rate	**2.63%**	2.70%	3.35%	3.52%	4.62%	**(7)bps**	(65)bps
Net charge-off rate	**2.04**	1.89	2.94	5.18	5.87	**15**	(105)
Non-interest expense as a % of average loans held for investment(19)	**6.50**	6.36	7.27	6.17	5.17	**14**	(91)
Efficiency ratio.	**55.91**	55.83	57.33	49.06	43.35	**8**	(150)

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

(1) Effective January 1, 2010, we prospectively adopted two accounting standards related to the transfer and servicing of financial assets and consolidations that changed how we account for securitized loans. The adoption of these accounting standards, which we refer to in this Report as consolidation accounting standards, resulted in the consolidation of our credit card securitization trusts and certain other trusts, which added $41.9 billion of assets, consisting primarily of credit card loan receivables underlying the consolidated securitization trusts, along with $44.3 billion of related debt issued by these trusts to third-party investors to our reported consolidated balance sheets and reduced our stockholders equity by $2.9 billion and reduced our Tier 1 risk-based capital ratio to 9.9% from 13.8%. The reduction to stockholders equity was driven by the establishment of an allowance for loan and lease losses of $4.3 billion (pre-tax) primarily related to receivables held in credit card securitization trusts that were consolidated at the adoption date. Prior period reported amounts have not been restated as the accounting standards were adopted prospectively. Prior to January 1, 2010, in addition to our reported U.S. GAAP results, we presented and analyzed our results on a non-GAAP managed basis. Our managed-basis presentation included certain reclassification adjustments that assumed securitized loans accounted for as sales remained on balance sheet, and the earnings from the off-balance sheet securitized loans were reported in our results of operations in the same manner as earnings on retained loans recorded on our consolidated balance sheets. While our managed presentation resulted in differences in the classification of revenues in our consolidated statements of income, net income on a managed basis was the same as our reported net income. We believe this managed-basis information was useful to investors because it enabled them to understand both the credit risks associated with loans reported

on our consolidated balance sheets and our retained interests in securitized loans. As a result of the adoption of the consolidation accounting standards, our reported and managed based presentations are generally comparable for periods beginning after January 1, 2010. See MD&A Supplemental Tables and Exhibit 99.1 for additional information on our non-GAAP managed presentation and other non- GAAP measures.

(2) Includes a bargain purchase gain of $594 million attributable to the ING Direct acquisition recognized in non-interest income in the first quarter of 2012. The bargain purchase gain represents the excess of the fair value of the net assets acquired from ING Direct as of the acquisition date over the consideration transferred.

(3) Total net revenue was reduced by $796 million, $937 million, $371 million, $950 million and $2.1 billion in 2013, 2012, 2011, 2010, and 2009, respectively, for the estimated uncollectible amount of billed finance charges and fees. The reserve for estimated uncollectible billed finance charges and fees, which we refer to as the finance charge and fee reserve, totaled $190 million, $307 million, $74 million, $211 million and $624 million as of December 31, 2013, 2012, 2011, 2010, and 2009, respectively.

(4) Provision for credit losses for 2012 includes expense of $1.2 billion to establish an initial allowance for the receivables acquired in the 2012 U.S. card acquisition accounted for based on contractual cash flows.

(5) Includes purchased credit card relationship intangible amortization of $434 million, $350 million and $21 million in 2013, 2012 and 2011, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $165 million, $193 million, $172 million, $199 million and $212 million in 2013, 2012, 2011, 2010, and 2009, respectively.

(6) Preferred stock dividends in 2009 were attributable to our participation in the U.S. Department of Treasury s Troubled Asset Relief Program (TARP).

(7) Calculated based on dividends per common share for the period divided by basic earnings per common share for the period.

(8) 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.

(9) 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.

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

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

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

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

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

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

(16) Calculated based on the 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.

(17) Calculated based on the 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 F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information.

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

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

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

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

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

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

(24) TCE ratio is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for the calculation of this measure and reconciliation to the comparative GAAP measure. The TCE ratio as of December 31, 2013 has been updated from 8.70% as reported in our Exhibit 99.2 of our Current Report Form 8-K as filed on January 16, 2014.

(25) See MD&A Supplemental Tables and Exhibit 99.1 for a reconciliation of non-GAAP managed measures to comparable U.S. GAAP measures.

Table of Contents

Item 7. 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 Report. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in this Report in Part I Item 1A. Risk Factors. Unless otherwise specified, references to notes to our consolidated financial statements refers to the notes to our consolidated financial statements as of December 31, 2013 included in this 2013 Annual 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 audited consolidated financial statements as of December 31, 2013 and accompanying notes. MD&A is organized in the following sections:

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

In 2013, we continued to deliver strong returns. All three of our business segments delivered growth in total revenues during the year, allowing us to remain focused on providing sustained and improved profitability and shareholder value.

On July 2, 2013, our Board of Directors authorized the repurchase of up to $1 billion of shares of our common stock (2013 Stock Repurchase Program) upon the closing of the Portfolio Sale. As of December 31, 2013, we have completed the repurchase of common stock as part of the 2013 Stock Repurchase Program.

Financial Highlights

We reported net income of $4.2 billion ($6.96 per diluted share) on total net revenue of $22.4 billion for 2013, with each of our three business segments contributing to our earnings. In comparison, we reported net income of $3.5 billion ($6.16 per diluted share) on total net revenue of $21.4 billion for 2012 and $3.1 billion ($6.80 per diluted share) on total net revenue of $16.3 billion in 2011.

Our Tier 1 common ratio, as calculated under Basel I, increased to 12.23% as of December 31, 2013, up 127 basis points from 10.96% as of December 31, 2012. The increase in our Tier 1 common ratio reflects strong internal capital generation from earnings and the full benefit of the decline in risk weighted assets from the Portfolio Sale, which was offset by the decline in capital level from the 2013 Stock Repurchase Program. See Capital Management below for additional information.

Table of Contents

Below are additional highlights of our performance in 2013. These highlights generally are based on a comparison between 2013 and 2012 results, 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 December 31, 2013, compared with our financial condition and credit performance as of December 31, 2012. 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 $642 million in 2013, or 18%, to $4.2 billion, compared to $3.5 billion for 2012. A significant driver of the increase in earnings in 2013 was the growth in interest income attributable to (i) the increase in average interest-earning assets as a result of the ING Direct and 2012 U.S. card acquisitions, growth in purchase volumes in the Credit Card business and growth in auto loans, partially offset by the Portfolio Sale and the expected run-off of home loans, and (ii) the decrease in interest expense due to lower costs related to borrowings and debt obligations. Another factor contributing to the increase in earnings was the absence in 2013 of the provision for credit losses of $1.2 billion related to the credit card receivables acquired in the 2012 U.S. card acquisition recorded in the second quarter of 2012. This effect was partially offset by the absence in 2013 of the bargain purchase gain of $594 million recorded in 2012 at the acquisition of ING Direct in the first quarter of 2012 and higher ongoing operating expenses.

Loans Held for Investment: Period-end loans held for investment decreased by $8.7 billion, or 4%, in 2013, to $197.2 billion as of December 31, 2013, from $205.9 billion as of December 31, 2012. The decrease was partially due to the Portfolio Sale. In addition to the Portfolio Sale, period-end loans held for investment also decreased due to the expected run-off of certain credit card loans acquired in the 2012 U.S. card acquisition, installment loans in our Credit Card business, home loans in our Consumer Banking business and small-ticket commercial real estate loans in our Commercial Banking business. This run-off was partially offset by continued strong auto loan originations in our Consumer Banking business and commercial and industrial and commercial real estate loan growth in our Commercial Banking business.

Charge-off and Delinquency Statistics: Our net charge-off rate increased by 15 basis points in 2013 to 2.04%, compared to 1.89% for 2012. The increases in our reported net charge-offs and net charge-off rate were largely due to the run-off of certain credit card loans acquired in the 2012 U.S. card acquisition. Acquired loans from this portfolio generally have no charge-offs, but the balance is included in the denominator. As such, when these loans run-off and are replaced with originated loans, our charge-off rates increase. Our reported 30+ day delinquency rate declined to 2.96% as of December 31, 2013, from 3.09% as of December 31, 2012. We provide information on our credit quality metrics below under Business Segment Financial Performance and Credit Risk Profile.

Allowance for Loan and Lease Losses: We reduced our allowance by $841 million to $4.3 billion as of December 31, 2013, from $5.2 billion as of December 31, 2012. The decrease in the allowance was mainly due to an overall improved credit outlook coupled with improvements in delinquency inventories and the reduction in loan balances. In addition, the allowance was reduced by $289 million related to the Portfolio Sale in the third quarter of 2013. The allowance coverage ratio declined to 2.19% as of December 31, 2013, from 2.50% as of December 31, 2012.

Representation and Warranty Reserve: We recorded a mortgage representation and warranty provision of $309 million in 2013 compared to $349 million in 2012. Our mortgage representation and warranty reserve increased to $1.2 billion as of December 31, 2013, from $899 million as of December 31, 2012. The increase in the reserve is primarily due to increased litigation and estimated settlement rates on active litigation.

Business Segment Financial Performance

Credit Card: Our Credit Card business generated net income from continuing operations of $2.6 billion in 2013, compared with net income from continuing operations of $1.5 billion in 2012. The increase in net income from continuing operations of $1.1 billion was driven by the absence in 2013 of the provision for credit losses of $1.2 billion to establish an allowance for the credit card receivables acquired in the 2012 U.S. card acquisition and the absence in 2013 of the $174 million charge to establish a reserve for estimated uncollectible billed finance charges and fees related to those loans, both of which were recorded in 2012. The improvement also reflects higher revenue attributable to the 2012 U.S. card acquisition coupled with increased purchase volume in our Credit Card business. The increase in net revenues was partially offset by higher operating expenses resulting from the 2012 U.S. card acquisition. Period-end loans held for investment in our Credit Card business decreased by $10.5 billion to $81.3 billion as of December 31, 2013 from $91.8 billion as of December 31, 2012. The decrease was largely due to the Portfolio Sale and continued run-off of our installment loan portfolio and certain other credit card loans acquired in the 2012 U.S. card acquisition.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $1.5 billion in 2013, compared with net income from continuing operations of $1.4 billion in 2012. The modest increase in net income is due to higher interest income related to growth in average interest earning assets in auto partially offset by the run-off of home loans. Period-end loans held for investment in our Consumer Banking business decreased by $4.3 billion, or 6%, to $70.8 billion as of December 31, 2013, from $75.1 billion as of December 31, 2012, due to the run-off of acquired home loans partially offset by strong auto loan originations.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $769 million in 2013, compared with net income from continuing operations of $835 million in 2012. The decrease in net income of $66 million is due to a higher provision for credit losses. The higher provision for credit losses was driven by lower allowance releases, which was partially offset by loan growth in 2013 compared to the prior year. This was partially offset by higher revenues due to growth in commercial real estate and commercial and industrial loans and higher deposit balances and fee-based product and services revenue. Period-end loans held for investment in our Commercial Banking business increased by $6.2 billion, or 16%, to $45.0 billion as of December 31, 2013, from $38.8 billion as of December 31, 2012. The increase was driven by strong loan originations in the commercial and industrial and commercial real estate businesses, which were partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Annual Report on Form 10-K. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in Part I Item 1. Business and Part II Item 7. MD&A of this Report. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. 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 Part I Item 1. Business Forward-Looking Statements for more information on the forward-looking statements in this Report and Part I Item 1A. Risk Factors in this Report for factors that could materially influence our results.

Total Company Expectations

Our strategies and actions are designed to deliver and sustain strong returns and capital generation through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe that franchise-enhancing customer relationships create and sustain significant long-term value through low risk-adjusted credit costs, long and loyal customer relationships and a gradual build in loan balances and revenues over time. Examples of franchise-enhancing customer relationships include rewards customers and partnerships in our Credit Card business, retail deposit customers in our Consumer Banking business and primary banking relationships with commercial customers in our Commercial Banking business. We intend to grow these customer relationships by continuing to invest in scalable infrastructure and operating platforms, so that we can meet the heightened risk management expectations facing all banks and deliver a brand-defining customer experience that builds and sustains a valuable, long-term customer franchise.

We expect 2014 pre-provision net revenue, excluding non-recurring items, of approximately $9.8 billion. In 2014, we expect very modest revenue growth, after adjusting for the Portfolio Sale. We also expect operating expenses in 2014 to be approximately $10.5 billion, excluding non-recurring items. These estimates are expected to vary within a reasonable margin of error. We anticipate that marketing expenses will rise in 2014, although actual marketing expenses will depend on our assessment of the market and competitive opportunities. In addition, we continue to expect portfolio run-off of approximately $1 billion in card loans and $4 billion in home loans in 2014.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. In our recent submission in the 2014 CCAR cycle, we requested share repurchases that, if approved, would result in a total payout ratio well above the 2013 industry norm of approximately 50%. See MD&A Capital Management-Capital Planning and Regulatory Stress Testing for more information.

Business Segment Expectations

Credit Card: We expect Domestic Card loan growth in the coming quarters to be muted as planned run-off and other strategic choices we have made continue to mask strong underlying growth in areas we are emphasizing. We expect loan growth in Domestic Card to resume sometime around the second half of 2014, when underlying loan growth will begin to more than offset shrinkage in other parts of the business. Trends in loans and purchase volumes continue to reflect our strategic choices. Overall, we believe that our Domestic Card business continues to be well-positioned and will continue to deliver strong, sustainable and resilient returns and generate capital on a strong trajectory.

Consumer Banking: In our Consumer Banking business, we expect continued run-off in the acquired Home Loans portfolio to have a significant impact on loan balances. In Auto, we expect credit losses will continue to increase from the historic lows of the past few years and Auto revenues, margins and returns to continue to decline, but remain resilient and within ranges that support an attractive business. In addition, we expect the inexorable impacts of the prolonged low interest rate environment to continue to pressure the economics of our retail deposit businesses even if rates begin to rise in 2014.

Commercial Banking: Our Commercial Banking business loan growth, credit and profitability trends remain healthy. While increasing competition, particularly in middle-market lending, may continue to impact the pricing and volume of our new loan originations, we expect our focus and specialized approach to deliver strong results in 2014.

Table of Contents

Table 1: Business Segment Results

	Year Ended December 31,											
	2013				**2012**				**2011**			
	Total Net Revenue(1)		**Net Income (Loss)(2)**		**Total Net Revenue(1)**		**Net Income (Loss)(2)**		**Total Net Revenue(1)**		**Net Income (Loss)(2)**	
Dollars in millions)	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**	**Amount**	**% of Total**
redit Card	**$ 14,287**	**64%**	**$ 2,615**	**60%**	$ 13,260	62%	$ 1,530	41%	$ 10,431	64%	$ 2,277	70%
onsumer Banking	**6,654**	**30**	**1,451**	**33**	6,570	30	1,363	37	4,956	30	809	25
ommercial Banking(3)	**2,290**	**10**	**769**	**17**	2,080	10	835	22	1,879	12	595	18
ther(4)	**(847)**	**(4)**	**(443)**	**(10)**	(514)	(2)	6		(987)	(6)	(428)	(13)
otal from ontinuing operations	**$ 22,384**	**100%**	**$ 4,392**	**100%**	$ 21,396	100%	$ 3,734	100%	$ 16,279	100%	$ 3,253	100%

(1) Total net revenue consists of net interest income and non-interest income.

(2) Net income for our business segments is reported based on income from continuing operations, net of tax.

(3) Because we have some affordable housing tax-related 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.

(4) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities to our business segments as well as other items as described in Note 19 Business Segments .

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 .

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

- Loan loss reserves
- Asset impairment
- Fair value of financial instruments
- Representation and warranty reserves
- Customer rewards reserves
- Income taxes

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

Loan Loss Reserves

We maintain an allowance for loan and lease losses that represents management s estimate of incurred loan and lease losses inherent in our held-for-investment credit card, consumer banking and commercial banking loan portfolios as of each balance sheet date, as well as a reserve for unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. We also maintain a separate reserve for the uncollectible portion of billed finance charges and fees on credit card loans.

Table of Contents

Allowance for Loan and Lease Losses

We have an established process, using analytical tools and management judgment, to determine our allowance for loan and lease losses. Losses are inherent in our loan portfolio and we calculate the allowance for loan and lease losses by estimating incurred losses for segments of our loan portfolio with similar risk characteristics and record a provision for credit losses. We build our allowance for loan and lease losses and unfunded lending commitment reserves through the provision for credit losses. Our provision for credit losses in each period is driven by charge-offs, changes to allowance for loan and lease losses, and changes to unfunded lending commitments. We recorded a provision for credit losses of $3.5 billion, $4.4 billion and $2.4 billion in 2013, 2012 and 2011, respectively. The allowance totaled $4.3 billion as of December 31, 2013, compared with $5.2 billion as of December 31, 2012.

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

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in Note 1 Summary of Significant Accounting Policies. We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in Note 5 Allowance for Loan and Lease Losses.

Reserve for Unfunded Lending Commitments

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit and financial guarantees, and binding unfunded loan commitments. Our commercial loan portfolio is primarily composed of larger-balance, non-homogeneous loans. We determine the allowance and reserve for unfunded lending commitments for our commercial loan portfolio by evaluating loans with similar risk characteristics and applying internal risk ratings. We use these risk ratings to assess credit quality and derive a total loss estimate based on an estimated probability of default and loss given default. Factors we consider in determining risk ratings and deriving loss estimates include historical loss experience for loans with similar risk characteristics, the financial condition of the borrower, geography, collateral performance and industry-specific information that management believes is relevant. Management may also apply judgment to adjust the derived loss factors, taking into consideration both quantitative and qualitative factors, including general economic conditions, specific industry and geographic trends, portfolio concentrations, trends in internal credit quality indicators and current and past underwriting standards that have occurred but are not yet reflected in the historical data underlying our loss estimates.

Finance Charge and Fee Reserves

Finance charges and fees on credit card loans, net of amounts that we consider uncollectible, are included in loan receivables and revenue when the finance charges and fees are earned. We continue to accrue finance charges and fees on credit card loans until the account is charged-off; however, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue. Total net revenue was reduced by $796 million, $937 million and $371 million in 2013, 2012 and 2011, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $190 million as of December 31, 2013, compared with $307 million as of December 31, 2012.

We review and assess the adequacy of the uncollectible finance charge and fee reserve on a quarterly basis. Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred principal losses on our credit card loan receivables.

Asset Impairment

In addition to our loan portfolio, we review other assets for impairment on a regular basis in accordance with applicable impairment accounting guidance. This process requires significant management judgment and involves various estimates and assumptions. Our investment securities and goodwill and intangible assets represent a significant portion of our other assets. Accordingly, below we describe our process for assessing impairment of these assets and the key estimates and assumptions involved in this process.

Investment Securities

We regularly review investment securities for other-than-temporary impairment (OTTI) using both quantitative and qualitative criteria. If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other qualitative criteria to determine whether a credit loss exists. Our evaluation requires significant management judgment and a consideration of many factors, including, but not limited to, the extent and duration of the impairment; the health of and specific prospects for the issuer, including whether the issuer has failed to make scheduled interest or principal payments; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; the value of underlying collateral and current market conditions. Quantitative criteria include assessing whether there has been an adverse change in expected future cash flows. See Note 3 Investment Securities for additional information.

Goodwill and Other Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill totaled $14.0 billion and $13.9 billion as of December 31, 2013 and 2012, respectively. Other intangible assets, which we report on our consolidated balance sheets as a component of other assets, consist primarily of purchased credit card relationships (PCCR) and core deposit intangibles. The net carrying value of other intangible assets decreased to $1.8 billion as of December 31, 2013, from $2.6 billion as of December 31, 2012. Goodwill and other intangible assets together represented 5% of our total assets as of both December 31, 2013 and 2012, respectively. We did not recognize goodwill impairment in 2013, 2012 or 2011.

Goodwill

Goodwill is not amortized but must be allocated to reporting units and tested for impairment on an annual basis or in interim periods if events or circumstances indicate potential impairment. A reporting unit is a business segment or one level below. We have elected not to perform the optional qualitative assessment and proceeded directly to the quantitative impairment test. The goodwill impairment test, performed at October 1 of each year, is a two-step test. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to the carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any impairment loss.

We do not maintain separate balance sheets at the reporting unit level; therefore, we calculate the carrying values of our reporting units using an economic capital approach based on each reporting unit s specific regulatory capital requirements (reflective of the final Basel III rules released during 2013) and risks. We compare the total reporting unit carrying values to our total consolidated stockholders equity, as discussed further in Note 7 Goodwill and Other Intangible Assets, to assess the appropriateness of our methodology. If the second step of goodwill impairment testing is required for a reporting unit, we undertake an extensive effort to build the specific reporting unit s balance sheet for the test based on applicable accounting guidance.

Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments, particularly related to cash flows, the appropriate discount rates and an applicable control premium. The fair value of reporting units is calculated using a discounted cash flow model, a form of the income approach. The model projects cash flows based on each reporting unit s internal forecast and use the perpetuity growth method to calculate terminal values . These cash flows and terminal values are then discounted using appropriate discount rates, which are largely based on our external cost of equity with adjustments for risk inherent in each reporting unit: Cash flows are adjusted, as necessary, in order to maintain each reporting unit s equity capital requirements. Our discounted cash flow analysis requires management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. Discount rates used in 2013 for the reporting units ranged from 8.0% to 12.5%. The key inputs into the discounted cash flow analysis were consistent with market data, where available, indicating that assumptions used were within a reasonable range of observable market data. Based on our analysis, fair value exceeded the carrying amount for all reporting units as of our annual testing date, therefore, the second step of impairment testing was unnecessary.

As part of the annual goodwill impairment test, we also assess our market capitalization based on the average market price relative to the aggregate fair value of our reporting units and determined that any excess fair value in our reporting units at that time could be attributed to a reasonable control premium compared to historical control premiums seen in the industry.

We will continue to regularly monitor our market capitalization in 2014, overall economic conditions and other events or circumstances that may result in an impairment of goodwill in the future.

Other Intangible Assets

Intangible assets with definitive useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset s or asset group s carrying value may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying value of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying value. We did not recognize impairment on other intangible assets in 2013, 2012 or 2011.

Mortgage Servicing Rights

Mortgage servicing rights (MSR) are initially recorded at fair value when mortgage loans are sold or securitized in the secondary market and the right to service these loans is retained for a fee. Subsequently, our consumer related MSRs are carried at fair value on our consolidated balance sheets with changes in fair value recognized in non-interest income. Our commercial mortgage related MSRs are subsequently measured under the amortization method and are periodically evaluated for impairment, which is recognized as a reduction in non-interest income. See Note 7 Goodwill and Other Intangible Assets and Note 18 Fair Value of Financial Instruments for additional information.

Fair Value

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

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

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

liabilities

Level 3: Unobservable inputs

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

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

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

Our financial instruments recorded at fair value on a recurring basis represented approximately 14% and 21% of our total assets as of December 31, 2013 and December 31, 2012, respectively. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 8% and 5% of these financial instruments as of December 31, 2013 and 2012, respectively.

Table of Contents

We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in Note 18 Fair Value of Financial Instruments.

Key Controls Over Fair Value Measurement

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results. Groups independent from our trading and investing functions, including our Corporate Valuations Group (CVG), Fair Value Committee and Model Validation Group, participate in the review and validation process. The fair valuation governance process is set up in a manner that allows the Chairperson of the Fair Value Committee (FVC) to escalate valuation disputes that cannot be resolved at the FVC to a more senior committee called the Valuations Advisory Committee for resolution. The Valuations Advisory Committee (VAC) is chaired by the Chief Financial Officer and includes other senior management. The VAC is only convened to review escalated valuation disputes and did not meet during 2013.

The CVG performs periodic independent verification of fair value measurements to determine if assigned fair values are reasonable. For example, in cases where we rely on third party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the final price used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources, where necessary. Additional validation procedures performed by the CVG include reviewing (either directly or indirectly through the reasonableness of assigned fair values) valuation inputs and assumptions, and monitoring acceptable variances between recommended prices and validation prices. The CVG and the Trade Analytics and Valuation team perform due diligence reviews of the third party pricing services by comparing their prices with prices from other sources and reviewing other control documentation. Additionally, when necessary, the CVG and Trade Analytics and Valuation Team (TAV) challenge prices from third party vendors to ensure reasonableness of prices through a pricing challenge process. This may include a request for a transparency of the assumptions used by the third party.

The FVC, which includes representation from business areas, our Risk Management division and our Finance division, is a forum for discussing fair market valuations, inputs, assumptions, methodologies, variance thresholds, valuation control environment and material risks or concerns related to fair market valuations. Additionally, the FVC is empowered to resolve valuation disputes between the primary valuation providers and the CVG. It provides guidance and oversight to ensure an appropriate valuation control environment. The FVC regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance. The Chief Financial Officer determines when material issues or concerns regarding valuations shall be raised to the Audit Committee or other delegated committee of the Board of Directors.

We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for pricing. The Model Validation Group is part of the Model Risk Office and validates all models and provides ongoing monitoring of their performance, including the validation and monitoring of the performance of all valuation models.

Representation and Warranty Reserve

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

We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. In establishing the representation and warranty reserves, we consider a variety of factors, depending on the category of purchaser and rely on historical data. These factors include, but are not limited to, the historical relationship between loan losses and repurchase outcomes; the percentage of current and future loan defaults that we anticipate will result in repurchase requests over the lifetime of the loans; the percentage of those repurchase requests that we anticipate will result in actual repurchases; and estimated collateral valuations. We evaluate these factors and update our loss forecast models on a quarterly basis to estimate our lifetime liability.

Our aggregate representation and warranty mortgage repurchase reserves, which we report as a component of other liabilities in our consolidated balance sheets, totaled $1.2 billion as of December 31, 2013, compared with $899 million as of December 31, 2012. The adequacy of the reserves and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rates of claimants, developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

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 December 31, 2013 is approximately $2.6 billion, a decline from our estimate of $2.7 billion as of December 31, 2012. Notwithstanding our ongoing attempts to estimate a reasonably possible amount of future losses beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimate of the amount of reasonably possible losses. This estimate involves considerable judgment, and reflects that there is still significant uncertainty regarding the numerous factors that may impact the ultimate loss levels, including, but not limited to, anticipated litigation outcomes, future repurchase and indemnification claim levels, ultimate repurchase and indemnification rates, future mortgage loan performance levels, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). In light of the significant uncertainty as to the ultimate liability our subsidiaries may incur from these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period. See Note 20 Commitments, Contingencies, Guarantees, and Others for additional information.

Customer Rewards Reserve

We offer products, primarily credit cards, which offer reward program members with various rewards, such as cash, gift cards, airline tickets or merchandise. The majority of our rewards do not expire and there is no limit on the number of reward points an eligible card member may earn. Customer rewards costs, which we generally record as an offset to interchange income, are driven by various factors, such as card member charge volume, customer participation in the rewards program and contractual arrangements with redemption partners. We establish a customer rewards reserve that reflects management s judgment regarding rewards earned that are expected to be redeemed and the estimated redemption cost.

We use financial models to estimate ultimate redemption rates of rewards earned to date by current card members based on historical redemption trends, current enrollee redemption behavior, card product type, year of program enrollment, enrollment tenure and card spend levels. Our current assumption is that the vast majority of all rewards earned will eventually be redeemed. We use a weighted-average cost per reward redeemed during the previous twelve months, adjusted as appropriate for recent changes in redemption costs, including mix of rewards redeemed, to estimate future redemption costs.

Table of Contents

We continually evaluate our reserve methodology and assumptions based on developments in redemption patterns, cost per point redeemed, contract changes and other factors. Changes in the ultimate redemption rate and weighted-average cost per point have the effect of either increasing or decreasing the reserve through the current period provision by an amount estimated to cover the cost of all points previously earned but not yet redeemed by card members as of the end of the reporting period. We recognized customer rewards expense of $1.6 billion, $1.3 billion and $1.0 billion in 2013, 2012 and 2011, respectively. Our customer rewards liability, which is included in other liabilities in our consolidated balance sheets, totaled $2.3 billion and $2.1 billion as of December 31, 2013 and 2012, respectively.

Income Taxes

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

Our income tax expense consists of two components: current and deferred taxes. Our current income tax expense approximates taxes to be paid or refunded for the current period. It also includes income tax expense related to our uncertain tax positions and revisions of our estimate of accrued income taxes resulting from the resolution of income tax controversies. Our deferred income tax expense results from changes in our deferred tax assets and liabilities between periods.

Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management s judgment that realization is more likely than not. We evaluate the recoverability of these future tax deductions by assessing the adequacy of expected taxable income from all sources, including taxable income in carryback years, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short- and long-range business forecasts to provide insight.

As of December 31, 2013, we have recorded deferred tax assets, net of deferred tax liabilities and valuation allowances, of approximately $3.7 billion, an increase of $0.8 billion from $2.9 billion at December 31, 2012. We have recorded a valuation allowance of $139 million and $123 million as of December 31, 2013 and 2012, respectively. We expect to fully realize the net deferred tax asset amounts in future periods. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we will adjust our valuation allowances in the period that our change in judgment occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in Consolidated Results of Operations and in Note 17 Income Taxes.

ACCOUNTING CHANGES AND DEVELOPMENTS

See Note 1 Summary of Significant Accounting Policies for information on accounting standards adopted in 2013, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these changes in accounting standards. To the extent we believe the adoption of new accounting standards has had or will have a material impact on our results of operations, financial condition or liquidity, we discuss the impacts in the applicable section(s) of MD&A.

Table of Contents

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance between 2013 and 2012 and between 2012 and 2011. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary and Business Outlook, where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt 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 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 of Contents

Table 2 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 2013, 2012 and 2011.

Table 2: Average Balances, Net Interest Income and Net Interest Yield[(1)]

	Year Ended December 31,								
	2013			2012			2011		
(Dollars in millions)	Average Balance	Interest Income/ Expense[(2)(3)]	Yield/ Rate	Average Balance	Interest Income/ Expense[(2)(3)]	Yield/ Rate	Average Balance	Interest Income/ Expense[(2)(3)]	Yield/ Rate
Assets:									
Interest-earning assets:									
Credit card:									
Domestic	**$ 74,950**	**$ 10,876**	**14.51%**	$ 71,857	$ 10,153	14.13%	$ 53,465	$ 7,562	14.14%
International	**7,973**	**1,295**	**16.24**	8,255	1,292	15.66	8,645	1,359	15.72
Credit card	**82,923**	**12,171**	**14.68**	80,112	11,445	14.29	62,110	8,921	14.36
Consumer banking	**72,652**	**4,428**	**6.09**	72,061	4,516	6.27	34,967	3,348	9.57
Commercial banking	**40,866**	**1,587**	**3.88**	36,136	1,528	4.23	31,311	1,482	4.73
Other	**168**	**36**	**21.43**	157	55	35.03	202	28	13.86
Total loans, including loans held for sale	**196,609**	**18,222**	**9.27**	188,466	17,544	9.31	128,590	13,779	10.72
Investment securities[(4)]	**63,522**	**1,575**	**2.48**	57,424	1,329	2.31	39,513	1,137	2.88
Cash equivalents and other interest-earning assets	**6,292**	**101**	**1.61**	9,189	91	0.99	7,162	71	0.99
Total interest-earning assets	**$ 266,423**	**$ 19,898**	**7.47%**	$ 255,079	$ 18,964	7.43%	$ 175,265	$ 14,987	8.55%
Cash and due from banks	**2,461**			4,573			1,926		
Allowance for loan and lease losses	**(4,572)**			(4,640)			(4,865)		
Premises and equipment, net	**3,770**			3,342			2,731		
Other assets	**29,202**			28,248			24,661		
Total assets	**$ 297,284**			$ 286,602			$ 199,718		
Liabilities and stockholders equity:									

Interest-bearing liabilities:									
Deposits	**$ 187,700**	**$ 1,241**	**0.66%**	$ 183,314	$ 1,403	0.77%	$ 109,644	$ 1,187	1.08%
Securitized debt obligations	**10,697**	**183**	**1.71**	14,138	271	1.92	20,715	422	2.04
Senior and subordinated notes	**12,440**	**315**	**2.53**	11,012	345	3.13	9,244	300	3.25
Other borrowings	**14,670**	**53**	**0.36**	12,875	356	2.77	8,063	337	4.18
Total interest-bearing liabilities	**$ 225,507**	**$ 1,792**	**0.79%**	$ 221,339	$ 2,375	1.07%	$ 147,666	$ 2,246	1.52%
Non-interest bearing deposits	**21,345**			19,741			17,050		
Other liabilities	**8,857**			8,196			6,423		
Total liabilities	**255,709**			249,275			171,139		
Stockholders equity	**41,575**			37,327			28,579		
Total liabilities and stockholders equity	**$ 297,284**			$ 286,602			$ 199,718		
Net interest income/spread		**$ 18,106**	**6.68%**		$ 16,589	6.36%		$ 12,741	7.03%
Impact of non-interest bearing funding			**0.12**			0.14			0.24
Net interest margin			**6.80%**			6.50%			7.27%

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

(2) Past due fees included in interest income totaled approximately $1.7 billion in both 2013 and 2012, and $1.1 billion in 2011.

(3) Interest income and interest expense and the calculation of average yields on interest-earning assets and average rates on interest-bearing liabilities include the impact of hedge accounting.

(4) Prior to the second quarter of 2013, average balances for investment securities were calculated based on fair value amounts. Effective in the second quarter of 2013, average balances are calculated based on the amortized cost of investment securities. The impact of this change on prior period yields is not material.

Table of Contents

Net interest income of $18.1 billion in 2013 increased by $1.5 billion, or 9%, from 2012, driven by a 4% increase in average interest-earning assets and a 5% (30 basis point) increase in net interest margin to 6.80%.

Average Interest-Earning Assets: The increase in average interest-earning assets in 2013 compared to 2012 reflects the full year impact of loans and investment securities from the ING Direct acquisition and the addition of loans from the 2012 U.S. card acquisition. Growth in average interest-earning assets was also driven by continued strong growth in commercial and auto loans, which was partially offset by the continued run-off of home loans in our Consumer Banking business, the expected run-off of higher-margin, higher-loss receivables acquired in the 2012 U.S. card acquisition and installment loans in our Credit Card business, as well as the Portfolio Sale in the third quarter of 2013.

Net Interest Margin: The increase in our net interest margin in 2013 compared to 2012 was primarily attributable to a reduction in our cost of funds, which was due in part to the redemption of $3.65 billion of our trust preferred securities on January 2, 2013, which generally carried a higher coupon than other funding sources available to us. Our lowered cost of funds also reflects the continued benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and a decline in deposit interest rates as a result of the continued overall low interest rate environment.

Net interest income of $16.6 billion in 2012 increased by $3.8 billion, or 30%, from 2011, driven by a 46% increase in average interest-earning assets, which was partially offset by an 11% (77 basis points) decline in our net interest margin to 6.50%.

Average Interest-Earning Assets: The significant increase in average interest-earning assets reflects the addition of the ING Direct loan portfolio of $40.4 billion in the first quarter of 2012 and the addition of the $27.8 billion in outstanding receivables acquired in the 2012 U.S. card acquisition and designated as held for investment in the second quarter of 2012. Growth in average interest-earning assets was also driven by continued strong growth in commercial and auto loans, which was partially offset by the continued expected run-off of home loans in our Consumer Banking business, as well as the expected run-off of higher-margin, higher-loss receivables acquired in the 2012 U.S. card acquisition and installment loans in our Credit Card business. The run-off of home loans accelerated slightly as a result of the low mortgage interest rate environment.

Net Interest Margin: The decrease in our net interest margin in 2012 was attributable to a decline in the average yield on our interest-earning assets, largely due to the shift in the mix of our interest-earning assets to a larger proportion of lower yielding assets resulting from the acquired ING Direct home loan and investment securities portfolios and temporarily higher cash balances from equity and debt offerings. The ING Direct interest-earning assets generally have lower yields than our legacy loan and investment securities portfolios. In addition, the establishment of a finance charge and fee reserve of $174 million in the second quarter of 2012 for the receivables acquired in the 2012 U.S. card acquisition and premium amortization related to the ING Direct and 2012 U.S. card acquisitions of $391 million in 2012 contributed to the reduction in the average yield on interest-earning assets. The decrease in the average yield on interest-earnings assets was partially offset by a reduction in our cost of funds. We have continued to benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and a decline in deposit interest rates as a result of the continued overall low interest rate environment.

Table of Contents

Table 3 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 3: Rate/Volume Analysis of Net Interest Income[(1)]

	2013 vs. 2012			2012 vs. 2011		
(Dollars in millions)	**Total Variance**	**Volume**	**Rate**	**Total Variance**	**Volume**	**Rate**
Interest income:						
Loans:						
Credit card	**$ 726**	**$ 408**	**$ 318**	$ 2,524	$ 2,572	$ (48)
Consumer banking	**(88)**	**37**	**(125)**	1,168	2,626	(1,458)
Commercial banking	**59**	**190**	**(131)**	46	214	(168)
Other	**(19)**	**4**	**(23)**	27	(7)	34
Total loans, including loans held for sale	**678**	**639**	**39**	3,765	5,405	(1,640)
Investment securities	**246**	**147**	**99**	192	445	(253)
Cash equivalents and other interest-earning assets	**10**	**(35)**	**45**	20	20	
Total interest income	**934**	**751**	**183**	3,977	5,870	(1,893)
Interest expense:						
Deposits	**(162)**	**33**	**(195)**	216	635	(419)
Securitized debt obligations	**(88)**	**(61)**	**(27)**	(151)	(127)	(24)
Senior and subordinated notes	**(30)**	**41**	**(71)**	45	56	(11)
Other borrowings	**(303)**	**44**	**(347)**	19	158	(139)
Total interest expense	**(583)**	**57**	**(640)**	129	722	(593)
Net interest income	**$ 1,517**	**$ 694**	**$ 823**	$ 3,848	$ 5,148	$ (1,300)

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

Non-Interest Income

Non-interest income primarily consists of service charges and other customer-related fees, interchange income (net of rewards expense), other non-interest income and, in 2012, the bargain purchase gain attributable to the ING Direct acquisition in the amount of $594 million. Other non-interest income includes the pre-tax provision for home loan representation and warranty related to continuing operations. It also includes gains and losses from the sale of investment securities, gains and losses on derivatives not accounted for in hedge accounting relationships and hedge ineffectiveness, which we generally do not allocate to our business segments because they relate to centralized asset/liability and market risk management activities undertaken by our Corporate Treasury group.

Table of Contents

Table 4 displays the components of non-interest income for 2013, 2012 and 2011.

Table 4: Non-Interest Income

	Year Ended December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**
Service charges and other customer-related fees	**$ 2,118**	$ 2,106	$ 1,979
Interchange fees, net	**1,896**	1,647	1,318
Bargain purchase gain[1]		594	
Net other-than-temporary impairment	**(41)**	(52)	(21)
Other non-interest income:			
(Provision) benefit for mortgage representation and warranty[2]	**24**	(42)	(43)
Net gains from the sale of investment securities	**7**	45	259
Net fair value gains (losses) on free-standing derivatives[3][4]	**3**	(36)	(197)
Other[5]	**271**	545	243
Other non-interest income	**305**	512	262
Total non-interest income	**$ 4,278**	$ 4,807	$ 3,538

(1) Represents the amount by which the fair value of the net assets acquired in the ING Direct acquisition, as of the acquisition date exceeded the consideration transferred.

(2) Represents mortgage representation and warranty provision related to continuing operations. We recorded a total provision for mortgage representation and warranty losses of $309 million, $349 million and $212 million for 2013, 2012 and 2011, respectively. The remaining portion of the provision for mortgage representation and warranty losses is included, net of tax, in discontinued operations.

(3) Excludes changes in cumulative credit risk valuation adjustments related to derivatives in a gain position. Credit risk valuation adjustments for derivative assets totaled $7 million, $9 million and $23 million as of December 31, 2013, 2012 and 2011, respectively. See Note 10 Derivative Instruments and Hedging Activities for additional information.

(4) Includes mark-to-market derivative losses of $78 million and $277 million in 2012 and 2011, respectively, related to interest-rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition.

(5) Other includes derivative hedge ineffectiveness losses of $43 million and $36 million in 2013 and 2012, respectively, and gains of $15 million in 2011. Other also includes income of $162 million in 2012 related to the sale of Visa stock shares.

Non-interest income of $4.3 billion in 2013 decreased by $529 million, or 11%, from non-interest income of $4.8 billion in 2012. The decrease in non-interest income reflected the combined impact of the absence of the bargain purchase gain of $594 million recognized at acquisition of ING Direct and income of $162 million from the sale of Visa stock shares, both of which were recorded in 2012. The impact of these items was partially offset by the favorable impact of increased customer related fees and interchange fees from purchase volume growth, due in part to the acquisitions, fee based products and services revenue, a reduction in the provision for mortgage representation and warranty losses and a reduction in fair value losses on free standing derivatives.

Non-interest income of $4.8 billion in 2012 increased by $1.3 billion, or 36%, from non-interest income of $3.5 billion in 2011. This increase reflected the combined impact of: (i) the bargain purchase gain of $594 million recorded at acquisition of ING Direct; (ii) increased net interchange and other fees resulting from continued growth and market share from new account originations, due in part to the ING Direct and the 2012 U.S. card acquisitions; (iii) income of $162 million from the sale of Visa stock shares in the first quarter of 2012; and (iv) mark-to-market gains of $85 million recognized on retained interests in mortgage-related securities. The favorable impact of these items was partially offset by expected customer refunds of approximately $115 million related to cross-sell activities in our Domestic Card business, approximately $214 million lower net gains from the sale of available for sale securities recorded in 2012 versus 2011, and a mark-to-market derivative loss of $78 million recognized in the first quarter of 2012 related to the settlement of interest-rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition.

Table of Contents

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 $3.5 billion in 2013, compared with $4.4 billion in 2012 and $2.4 billion in 2011. The provision for credit losses as a percentage of net interest income was 19.1%, 26.6%, and 18.5% in 2013, 2012, and 2011, respectively.

The decrease in the provision for credit losses of $962 million in 2013 from 2012 was driven by the absence of the provision for credit losses of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for credit card loans acquired in the 2012 U.S. card acquisition, and lower provision for credit losses in our non-acquired portfolio as underlying credit has improved. This was partially offset by (i) an increase in charge offs on the portfolio of Acquired Loans, as the Acquired Loans have run-off and have been replaced with originated loans which do not have a credit mark to absorb the charge-offs (ii) lower allowance release in our Commercial Banking business due to stabilization of the credit outlook in the current year compared to 2012, and (iii) higher charge offs on our Auto portfolio in our Consumer Banking segment reflecting portfolio growth and increased charge off rates from historically low levels.

The increase in the provision for credit losses of $2.0 billion in 2012 from 2011 was primarily related to the addition of the $26.2 billion in outstanding receivables acquired in the 2012 U.S. card acquisition designated as held for investment that had existing revolving privileges at acquisition. These loans were recorded at a fair value of $26.9 billion, resulting in a net premium of $705 million at acquisition, and we recorded an allowance of $1.2 billion for these loans.

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

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing technology expenses and other miscellaneous expenses. Non-interest expense also includes marketing costs, merger-related expense and amortization of intangibles. Table 5 displays the components of non-interest expense for 2013, 2012 and 2011.

Table 5: Non-Interest Expense

	Year Ended December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**
Salaries and associate benefits	**$ 4,432**	$ 3,876	$ 3,023
Occupancy and equipment	**1,504**	1,327	1,025
Marketing	**1,373**	1,364	1,337
Professional services	**1,303**	1,270	1,198
Communications and data processing	**885**	778	681
Amortization of intangibles	**671**	609	222
Acquisition-related	**193**	336	45

Other non-interest expense:			
Collections	**470**	544	563
Fraud losses	**218**	190	122
Bankcard, regulatory and other fee assessments	**562**	525	394
Other	**903**	1,127	722
Other non-interest expense	**2,153**	2,386	1,801
Total non-interest expense	**$ 12,514**	$ 11,946	$ 9,332

Non-interest expense of $12.5 billion in 2013 increased by $568 million, or 5%, from 2012. The increase reflected higher operating expenses attributable to the acquired businesses and the growth in our auto loan and commercial loan portfolios. These increases were partially offset by a reduction in acquisition-related costs and other non-interest expenses.

Non-interest expense of $11.9 billion for 2012 increased $2.6 billion, or 28%, from 2011. The increase was primarily due to higher operating expenses and merger-related costs related to our recent acquisitions, increased salaries and associate benefits attributable to increased headcount, higher infrastructure costs attributable to acquired businesses and our continued investment in our auto loan business and increased amortization of intangibles resulting from the ING Direct and 2012 U.S. card acquisitions. We recorded PCCR intangible amortization expense related to the 2012 U.S. card acquisition of $350 million in 2012. We recorded other intangible amortization expense related to the ING Direct and 2012 U.S. card acquisitions of $147 million in 2012.

Income Taxes

We recorded an income tax provision of $2.0 billion (31.6% effective income tax rate) in 2013, compared with an income tax provision of $1.3 billion (25.8% effective income tax rate) in 2012 and income tax provision of $1.3 billion (29.1% effective income tax rate) in 2011. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The increase in our effective income tax rate in 2013 from 2012 was primarily attributable to increased pre-tax income, which reduced the relative benefit of tax-exempt income, tax credits and other permanent items, and the absence of discrete tax benefits of $251 million recorded in 2012 for the non-taxable bargain purchase gain of $594 million related to the acquisition of ING Direct, a deferred tax benefit for changes in our state tax position resulting from the 2012 U.S. card acquisition and consolidation of ING Bank, fsb with our existing banking operations, and the resolution of certain tax issues and audits. In comparison, we recorded $16 million of discrete tax expense in 2013 primarily related to adjustments to acquired tax attributes based upon the final tax returns filed, changes to enacted statutory tax rates, and resolution of certain tax issues and audits.

The decrease in our effective income tax rate in 2012 from 2011 was primarily attributable to the recording of the discrete tax benefits of $251 million described above in 2012. In comparison, in 2011 we recorded discrete tax benefits of $121 million, primarily related to the release of valuation allowances against certain state deferred tax assets and net operating loss carry-forwards, as well as the resolution of certain tax issues and audits.

Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 31.4%, 30.7% and 31.7% in 2013, 2012, and 2011, respectively. The higher effective income tax rate before discrete items in 2013 and 2011 in comparison to 2012 was primarily due to lower affordable housing and other business tax credits as a percentage of pre-tax earnings.

We provide additional information on items affecting our income taxes and effective tax rate under Note 17 Income Taxes.

Loss from Discontinued Operations, Net of Tax

Loss from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges related to the mortgage origination operations of GreenPoint s wholesale mortgage banking unit that we closed in 2007.

We recorded a loss from discontinued operations, net of tax, of $233 million, $217 million and $106 million in 2013, 2012 and 2011, respectively. The variance in the loss from discontinued operations is attributable to the provision for mortgage representation and warranty losses. We recorded a total pre-tax provision for mortgage representation and warranty losses of $309 million, $349 million and $212 million in 2013, 2012 and 2011, respectively. The portion of these amounts included in loss from discontinued operations totaled $333 million ($210 million net of tax) in 2013, $307 million ($194 million net of tax) in 2012 and $169 million ($120 million net of tax) in 2011.

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 20 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. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses.

We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. In the first quarter of 2012, we re-aligned the loan categories reported by our Commercial Banking business and the loan customer and product types included within each category. As a result of this re-alignment, we now report three product categories: commercial and multifamily real estate, commercial and industrial loans and small-ticket commercial real estate, which is a run-off portfolio. We previously reported four categories within our Commercial Banking business: commercial and multifamily real estate, middle market, specialty lending and small-ticket commercial real estate. Middle market and specialty lending related products are included in commercial and industrial loans. All affordable housing tax-related investments, some of which were previously included in the Other segment, are now included in the commercial and multifamily real estate category of our Commercial Banking business. Prior period amounts have been recast to conform to the current period presentation.

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.

Table of Contents

Below we summarize our business segment results for 2013, 2012 and 2011 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of December 31, 2013, compared with December 31, 2012. We provide additional information on the allocation methodologies used to derive our business segment results and a reconciliation of our total business segment results to our reported consolidated results in Note 19 Business Segments. We provide information on the outlook for each of our business segments is presented above under Executive Summary and Business Outlook.

Credit Card Business

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

Our Credit Card business generated net income from continuing operations of $2.6 billion, $1.5 billion and $2.3 billion in 2013, 2012 and 2011, respectively.

On September 6, 2013, we completed the Portfolio Sale. We received $6.4 billion for the net portfolio assets and recognized $26 million of lower of cost or fair value adjustments related to the portfolio assets.

Table 6 summarizes the financial results of our Credit Card business, which is comprised of Domestic Card, including installment loans, and International Card, and displays selected key metrics for the periods indicated.

Table 6: Credit Card Business Results

				Change	
	Year Ended December 31,			2013 vs.	2012 vs.
(Dollars in millions)	**2013**	**2012**	**2011**	**2012**	**2011**
Selected income statement data:					
Net interest income	**$ 10,967**	$ 10,182	$ 7,822	**8%**	30%
Non-interest income	**3,320**	3,078	2,609	**8**	18
Total net revenue[1]	**14,287**	13,260	10,431	**8**	27
Provision for credit losses	**2,824**	4,061	1,870	**(30)**	117
Non-interest expense	**7,439**	6,854	5,035	**9**	36
Income from continuing operations before income taxes	**4,024**	2,345	3,526	**72**	(33)
Income tax provision	**1,409**	815	1,249	**73**	(35)
Income from continuing operations, net of tax	**$ 2,615**	$ 1,530	$ 2,277	**71%**	(33)%
Selected performance metrics:					
Average loans held for investment[2]	**$ 79,207**	$ 80,009	$ 62,110	**(1)%**	29%
	15.37%	14.31%	14.36%	**106bps**	(5)bps

Average yield on loans held for investment[3]					
Total net revenue margin[4]	**18.04**	16.57	16.79	**147**	(22)
Net charge-offs	**$ 3,285**	$ 2,944	$ 3,056	**12%**	(4)%
Net charge-off rate[5]	**4.15%**	3.68%	4.92%	**47bps**	(124)bps
Card loan premium amortization and other intangible accretion[6]	**$ 198**	$ 206	$	**(4)%**	**%
PCCR intangible amortization	**434**	350	21	**24**	1,567
Purchase volume[7]	**201,074**	180,599	135,120	**11**	34

64

	December 31,		
(Dollars in millions)	2013	2012	Change
Selected period-end data:			
Loans held for investment[2]	**$ 81,305**	$ 91,755	**(11)%**
30+ day performing delinquency rate[8]	**3.46%**	3.61%	**(15)bps**
30+ day delinquency rate[9]	**3.54**	3.69	**(15)**
Nonperforming loan rate[10]	**0.11**	0.11	**
Allowance for loan and lease losses .	**$ 3,214**	$ 3,979	**(19)%**
Allowance coverage ratio[11]	**3.95%**	4.34%	**(39)bps**

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

(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $796 million, $937 million and $371 million in 2013, 2012 and 2011, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $190 million and $307 million as of December 31, 2013 and 2012, respectively.

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

(3) Calculated by dividing interest income for the period by average loans held for investment during the period for the specified loan category. Interest income also includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the average yield for the Total Credit Card business of 90 basis points in 2013.

(4) Calculated by dividing total net revenue for the period by average loans held for investment during the period for the specified loan category. Interest income also includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Total Credit Card business of 100 basis points in 2013.

(5) Calculated by dividing net charge-offs for the period by average loans held for investment during the period for the specified loan category. The net charge-off rate for 2012 reflects a cumulative adjustment we made in November 2012 related to the timing of charge- offs for delinquent U.K. loans for which revolving privileges have been revoked as part of a loan workout. We previously charged off such loans in the period the account became 180 days past due. Effective November 2012, we began charging off these loans in the period that the account becomes 120 days past due, consistent with our charge-off practice for installment loans.

(6) 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.

(7) Consists of 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.

(8) Calculated by dividing 30+ day performing delinquent loans as of the end of the period by the period-end loans held for investment.

(9) Calculated by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment.

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

(11) 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 completion of the 2012 U.S. card acquisition in May 2012 along with the transfer of the Best Buy loan portfolio to held for sale from held for investment and subsequent Portfolio Sale in 2013 were the most significant drivers of changes in the financial performance of our Credit Card business for 2013 compared with 2012. Our Credit Card business results for 2013 reflect the full impact of the addition of loans from the acquisition, while 2012 results reflect only a partial period impact of the loans acquired in the 2012 U.S. card acquisition. In addition, our Credit Card business results for 2013 reflect the absence of the provision for credit losses of $1.2 billion to establish an allowance for the credit card receivables acquired in the 2012 U.S. card acquisition and the absence of the charge of $174 million to establish a reserve for estimated uncollectible billed finance charges and fees related to these loans, both of which were recorded in the first half of 2012, as well as a reduction in the provision for credit losses for the transferred Best Buy loan portfolio as charge-offs of finance charges, fee and principal are reflected in the carrying value of loans classified as held for sale.

Key factors affecting the results of our Credit Card business for 2013, compared with 2012, and changes in financial condition and credit performance between December 31, 2013 and December 31, 2012 include the following:

- *Net Interest Income*: Net interest income increased by $785 million, or 8%, in 2013 to $11.0 billion from $10.2 billion in 2012. The increase in net interest income is primarily driven by (i) higher average yield on loans held for investment, (ii) the increase in interest and non interest income in 2013 due to the full year impact of 2012 U.S. card acquisition, and (iii) the absence of the charge recorded in the second quarter of 2012 to establish the finance charge and fee reserve for the loans acquired in the 2012 U.S card acquisition. The higher average yield on loans held for investment was driven largely by the transfer of the Best Buy loan portfolio to the loans held for sale category in the first quarter of 2013. This was partially offset by a decrease in average loans held for investment due to the Portfolio Sale and expected continued run-off of our installment loan portfolio and other credit card loans acquired in the 2012 U.S. card acquisition.

Non-Interest Income: Non-interest income increased by $242 million, or 8% in 2013 to $3.3 billion from $3.1 billion in 2012. The increase was primarily driven by higher net interchange fees from growth in purchase volume due in part to the 2012 U.S. card acquisition. Purchase volume increased by $20.5 billion, or 11%, in 2013. Other factors include increased customer-related fees from the addition of acquired credit card accounts and the absence of charges incurred in the first and second quarters of 2012 for expected refunds to customers affected by certain cross-sell sales practices in our Domestic Card business.

Provision for Credit Losses: The provision for credit losses related to our Credit Card business decreased by $1.3 billion to $2.8 billion in 2013, from $4.1 billion in 2012. The decrease was primarily driven by the absence of the provision for credit losses of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for credit card loans acquired in the 2012 U.S. card acquisition.

Non-Interest Expense: Non-interest expense increased by $585 million, or 9%, in 2013 to $7.4 billion from $6.9 billion in 2012. The increase was largely due to higher operating expenses resulting from the 2012 U.S. card acquisition. This includes PCCR intangible amortization expense of $434 million in 2013, compared with $350 million in 2012.

Loans Held for Investment: Period-end loans held for investment in our Credit Card business decreased by $10.5 billion, or 11% as of December 31, 2013. The decrease was due in part to the Portfolio Sale in 2013, as well as the expected continued run-off of our installment loan portfolio and certain other credit card loans acquired in the 2012 U.S. card acquisition partially offset by growth in certain other credit card segments.

Charge-off and Delinquency Statistics: Our reported net charge-off rate increased to 4.15% in 2013, from 3.68% in 2012. The 30+ day delinquency rate decreased to 3.54% as of December 31, 2013, from 3.69% as of December 31, 2012. The increase in reported net charge-off rates in 2013 were largely due to the impact of charge-offs from the 2012 U.S. card acquisition which was recorded at fair value. Charges offs are recorded on Acquired Loans when the nonaccretable difference on the loans are reduced to zero. Charge offs related to the 2012 U.S. card acquisition were included in the numerator in calculating our net charge-off rates in 2013.

Key factors affecting the results of our Credit Card business for 2012, compared with 2011, and changes in financial condition and credit performance between December 31, 2012 and December 31, 2011 include the following:

Net Interest Income: Net interest income increased by $2.4 billion, or 30%, in 2012, primarily attributable to the substantial increase in average loans held for investment resulting from the 2012 U.S. card acquisition in the second quarter of 2012, which was partially offset by a modest reduction in average loan yields due to the establishment of a finance charge and fee reserve for the loans acquired in the 2012 U.S. card acquisition and net premium amortization related to these loans.

Non-Interest Income: Non-interest income increased by $469 million, or 18%, in 2012. The increase was primarily driven by higher net interchange fees generated from purchase volume growth and customer-related fees resulting from the addition of customer accounts associated with the 2012 U.S. card acquisition in the second quarter of 2012. This increase was partially offset by charges of approximately $115 million expected refunds to customers affected by certain cross-sell activities in our Domestic Card business and the discontinuance of revenue recognition for billings to customers affected by the cross-sell activities.

Table of Contents

Provision for Credit Losses: The provision for credit losses related to our Credit Card business increased to $4.1 billion in 2012, from $1.9 billion in 2011. The significant increase in the provision in 2012 was primarily driven by the provision of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for the receivables acquired in the 2012 U.S. card acquisition with revolving privileges. We recorded an additional provision for credit losses for these loans of $107 million in the second half of 2012. The provision for credit losses, excluding the allowance build related to the receivables acquired in the 2012 U.S. card acquisition, totaled $2.8 billion in 2012, reflecting a relative stabilization in credit performance improvement compared to significant credit performance improvement in 2011 that resulted in a large allowance release of $1.2 billion in 2011.

Non-Interest Expense: Non-interest expense increased by $1.8 billion, or 36%, in 2012. The increase was largely due to higher operating expenses resulting from the 2012 U.S. card acquisition and the amortization of intangibles and other assets associated with the 2012 U.S. card acquisition, including PCCR intangible amortization expense of $350 million in 2012. Other items contributing to the increase in non-interest expense include merger-related expenses associated with the 2012 U.S. card acquisition, expense of $75 million recognized in the first quarter of 2012 for expected customer refunds attributable to issues associated with cross-selling certain other products to credit card customers, regulatory fines of $60 million related to cross-sell activities in the Domestic Card business and expense of $98 million for net litigation reserves to cover interchange and other legal matters in the second quarter of 2012.

Total Loans: Period-end loans in our Credit Card business increased by $26.7 billion, or 41%, in 2012, to $91.8 billion as of December 31, 2012. The increase was primarily due to the addition of the $27.8 billion in outstanding receivables acquired in the 2012 U.S. card acquisition classified as held for investment. Excluding the addition of these receivables, period-end loans held for investment decreased by $1.1 billion, or 2%, due to the expected continued run-off of our installment loan portfolio as well as the expected run-off of higher-margin, higher-loss receivables acquired in the 2012 U.S. card acquisition.

Charge-off and Delinquency Statistics: Our reported net charge-off rate decreased to 3.68% in 2012, from 4.92% in 2011. Our reported charge-offs reflect the absence of charge-offs for the receivables acquired in the 2012 U.S. card acquisition accounted for based on estimated cash flows expected to be collected over the life of the loans. Charges offs are recorded on Acquired Loans when the nonaccretable difference on the loans are reduced to zero. The decrease in the net-charge off rates was also due in part to the addition of loans acquired in the 2012 U.S. card acquisition to the denominator in calculating our reported charge-off rates. The 30+ day delinquency rate decreased to 3.69% as of December 31, 2012, from 3.86% as of December 31, 2011.

Domestic Card Business

Domestic Card generated net income from continuing operations of $2.4 billion in 2013, compared with net income from continuing operations of $1.4 billion in 2012 and $2.3 billion in 2011. Domestic Card accounted for 90% of total revenues for our Credit Card business in 2013 compared with 89% in 2012 and 87% in 2011. Income attributable to Domestic Card represented 91% of income for our Credit Card business in 2013, compared with 92% in 2012 and 102% in 2011.

Table of Contents

Table 6.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

Table 6.1: Domestic Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	**2013**	**2012**	**2011**	**2013 vs. 2012**	**2012 vs. 2011**
Selected income statement data:					
Net interest income	**$ 9,887**	$ 9,129	$ 6,717	**8%**	36%
Non-interest income	**2,957**	2,725	2,368	**9**	15
Total net revenue	**12,844**	11,854	9,085	**8**	30
Provision for credit losses	**2,502**	3,683	1,317	**(32)**	180
Non-interest expense	**6,645**	5,997	4,153	**11**	44
Income from continuing operations before income taxes	**3,697**	2,174	3,615	**70**	(40)
Income tax provision	**1,316**	770	1,287	**71**	(40)
Income from continuing operations, net of tax	**$ 2,381**	$ 1,404	$ 2,328	**70%**	(40)%
Selected performance metrics:					
Average loans held for investment[1] .	**$ 71,234**	$ 71,754	$ 53,464	**(1)%**	34%
Average yield on loans held for investment[2]	**15.27%**	14.15%	14.14%	**112bps**	1bps
Total net revenue margin[3]	**18.03**	16.52	16.99	**151**	(47)
Net charge-offs	**$ 2,904**	$ 2,532	$ 2,522	**15%**	%
Net charge-off rate[4]	**4.08%**	3.53%	4.72%	**55bps**	(119)bps
Card loan premium amortization and other intangible accretion[5]	**$ 198**	$ 206	$	**(4)%**	**%
PCCR intangible amortization	**434**	350	21	**24**	1,567
Purchase volume[6]	**186,901**	166,694	122,366	**12**	36

	December 31,		
(Dollars in millions)	**2013**	**2012**	**Change**
Selected period-end data:			
Loans held for investment[1]	**$ 73,255**	$ 83,141	**(12)%**
30+ day delinquency rate[7]	**3.43%**	3.61%	**(18)bps**
Allowance for loan and lease losses	**$ 2,836**	$ 3,526	**(20)%**

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

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

(2) Calculated by dividing interest income for the period by average loans held for investment during the period for the specified loan category. Interest income includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the average yield for the Domestic Card business of 99 basis points in 2013.

(3) Calculated by dividing total net revenue for the period by average loans held for investment during the period. Interest income includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Domestic Card business of 111 basis points in 2013.

(4) Calculated by dividing net charge-offs for the period by average loans held for investment during the period.

(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 30+ day delinquent loans 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 improvement in results for our Domestic Card business in 2013, compared with 2012 included: (i) higher interest income primarily driven by higher average yield on loans held for investment driven largely by the transfer of the Best Buy loan portfolio to the held for sale category in the first quarter of 2013, as well as the absence of the charge recorded in the second quarter of 2012 to establish the finance charge and fee reserve for the acquired credit card loans; (ii) the increase in interest and non interest income in 2013 due to the full year impact of 2012 U.S. card acquisition and (iii) the absence of provision for credit losses of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for acquired credit card loans. These impacts were partially offset by higher operating expenses attributable to the addition of loans and increased amortization of intangibles and other assets associated with the 2012 U.S. card acquisition.

Domestic Card generated net income from continuing operations of $1.4 billion in 2012, compared with net income from continuing operations of $2.3 billion in 2011. The decrease in Domestic Card net income in 2012 from 2011 reflected an increase in total net revenue largely due to the addition of loans from the 2012 U.S. card acquisition, which was more than offset by the unfavorable impact of several items related to the 2012 U.S. card acquisition. These items included: (i) a significant increase in the provision for credit losses resulting from an initial allowance build of $1.2 billion related to the portfolio purchased in the 2012 U.S. card acquisition; and (ii) an increase in non-interest expense largely resulting from operating expenses related to the 2012 U.S. card acquisition and the amortization of intangibles and other assets associated with the 2012 U.S. card acquisition, including PCCR intangible amortization expense of $350 million in 2012.

International Card Business

International Card generated net income from continuing operations of $234 million in 2013, compared with net income from continuing operations of $126 million in 2012 and a net loss from continuing operations of $51 million in 2011. International Card accounted for 10% of total net revenues for our Credit Card business in 2013, compared with 11% in 2012 and 13% in 2011. Income attributable to International Card represented 9% of income for our Credit Card business in 2013, compared with 8% of the net income for 2012. Our International Card business posted a loss that represented 2% of income for our Credit Card business in 2011.

Table of Contents

Table 6.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated.

Table 6.2: International Card Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	**2013**	**2012**	**2011**	**2013 vs. 2012**	**2012 vs. 2011**
Selected income statement data:					
Net interest income	**$ 1,080**	$ 1,053	$ 1,105	**3%**	(5)%
Non-interest income	**363**	353	241	**3**	46
Total net revenue	**1,443**	1,406	1,346	**3**	4
Provision for credit losses	**322**	378	553	**(15)**	(32)
Non-interest expense	**794**	857	882	**(7)**	(3)
Income/(Loss) from continuing operations before income taxes	**327**	171	(89)	**91**	292
Income tax provision/(benefit)	**93**	45	(38)	**107**	218
Income/(Loss) from continuing operations, net of tax	**$ 234**	$ 126	$ (51)	**86%**	347%
Selected performance metrics:					
Average loans held for investment[(1)] .	**$ 7,973**	$ 8,255	$ 8,645	**(3)%**	(5)%
Average yield on loans held for investment[(2)]	**16.24%**	15.66%	15.72%	**58bps**	(6)bps
Total net revenue margin[(3)]	**18.10**	17.03	15.57	**107**	146
Net charge-offs	**$ 381**	$ 412	$ 534	**(8)%**	(23)%
Net charge-off rate[(4)]	**4.78%**	4.98%	6.18%	**(20)bps**	(120)bps
Purchase volume[(5)]	**$ 14,173**	$ 13,905	$ 12,754	**2%**	9%

	December 31,		
(Dollars in millions)	**2013**	**2012**	**Change**
Selected period-end data:			
Loans held for investment[(1)]	**$ 8,050**	$ 8,614	**(7)%**
30+ day performing delinquency rate[(6)]	**3.71%**	3.58%	**13bps**
30+ day delinquency rate[(7)]	**4.56**	4.49	**7**
Nonperforming loan rate[(8)]	**1.10**	1.16	**(6)**
Allowance for loan and lease losses	**$ 378**	$ 453	**(17)%**

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

(1)

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

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

(3) Calculated by dividing total net revenue for the period by average loans held for investment during the period.

(4) Calculated by dividing net charge-offs for the period by average loans held for investment during the period. The net charge-off rate for 2012 reflects a cumulative adjustment we made in November 2012 related to the timing of charge-offs for delinquent U.K. loans for which revolving privileges have been revoked as part of a loan workout. We previously charged off such loans in the period the account became 180 days past due. Effective November 2012, we began charging off these loans in the period that the account becomes 120 days past due, consistent with our charge-off practice for installment loans.

(5) Consists of purchase transactions, net of returns for the period. Excludes cash advance and balance transfer transactions.

(6) Calculated by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment.

(7) Calculated by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment.

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

Our International Card business generated net income from continuing operations of $234 million in 2013, compared with net income from continuing operations of $126 million in 2012. The primary drivers of the improvement in results for our International Card business in 2013, compared with 2012 included: (i) the absence of charges recorded in the second quarter of 2012 associated with refunds to U.K. customers due to retrospective regulatory requirements pertaining to Payment Protection Insurance, which had an unfavorable impact on total net revenue and non-interest expense in 2012, and (ii) a reduction in the provision for credit losses attributable to lower net charge-offs, reflecting the improvement in the credit environment in Canada and the U.K.

Our International Card business generated net income from continuing operations of $126 million in 2012, compared with a net loss from continuing operations of $51 million in 2011. The International Card net income in 2012, compared with net loss in 2011, was driven by a decrease in the provision for credit losses, attributable to lower net charge-offs resulting from credit improvement in Canada and the U.K., and the absence of an allowance build of $105 million for the Hudson Bay Corporation loan portfolio we acquired in January 2011.

Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of $1.5 billion in 2013, compared with net income from continuing operations of $1.4 billion in 2012 and $809 million in 2011. Our results primarily reflect an increase in average balances in our auto portfolio offset by lower yields. This was partially offset by declining average balances and yields in our home loan portfolio.

On February 17, 2012, we acquired ING Direct, which resulted in the addition of loans with carrying value of $40.4 billion and deposits of $84.4 billion at acquisition. The substantial majority of the lending and retail deposit businesses acquired are reported in our Consumer Banking business; however, the results of our Consumer Banking business for the first quarter of 2012 reflect only a partial-quarter impact from the operations of ING Direct.

Table of Contents

Table 7 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

Table 7: Consumer Banking Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	2013	2012	2011	2013 vs. 2012	2012 vs. 2011
Selected income statement data:					
Net interest income	**$ 5,905**	$ 5,788	$ 4,236	**2%**	37%
Non-interest income	**749**	782	720	**(4)**	9
Total net revenue	**6,654**	6,570	4,956	**1**	33
Provision for credit losses	**656**	589	452	**11**	30
Non-interest expense	**3,745**	3,871	3,244	**(3)**	19
Income from continuing operations before income taxes	**2,253**	2,110	1,260	**7**	67
Income tax provision	**802**	747	451	**7**	66
Income from continuing operations, net of tax	**$ 1,451**	$ 1,363	$ 809	**6%**	68%
Selected performance metrics:					
Average loans held for investment:(1)					
Auto	**$ 29,446**	$ 24,976	$ 19,419	**18%**	29%
Home loan	**39,322**	42,764	11,322	**(8)**	278
Retail banking	**3,699**	4,096	4,097	**(10)**	
Total consumer banking	**$ 72,467**	$ 71,836	$ 34,838	**1%**	106%
Average yield on loans held for investment(2)	**6.10%**	6.28%	9.60%	**(18)bps**	(332)bps
Average deposits	**$ 169,683**	$ 162,637	$ 86,883	**4%**	87%
Average deposit interest rate	**0.63%**	0.70%	0.96%	**(7)bps**	(26)bps
Core deposit intangible amortization .	**$ 138**	$ 159	$ 132	**(13)%**	20%
Net charge-offs	**616**	531	484	**16**	10
Net charge-off rate(3)	**0.85%**	0.74%	1.39%	**11bps**	(65)bps
Net charge-off rate (excluding Acquired Loans)(4)	**1.51**	1.45	1.59	**6**	(14)
Auto loan originations	**$ 17,388**	$ 15,960	$ 12,476	**9%**	28%

	December 31,		
(Dollars in millions)	2013	2012	Change

Selected period-end data:			
Loans held for investment:[1]			
Auto	**$ 31,857**	$ 27,123	**17%**
Home loan	**35,282**	44,100	**(20)**
Retail banking	**3,623**	3,904	**(7)**
Total consumer banking	**$ 70,762**	$ 75,127	**(6)%**
30+ day performing delinquency rate[5]	**3.20%**	2.65%	**55bps**
30+ day performing delinquency rate (excluding Acquired Loans)[4]	**5.32**	5.14	**18**
30+ day delinquency rate[6]	**3.89**	3.34	**55**
30+ day delinquency rate (excluding Acquired Loans)[4]	**6.47**	6.49	**(2)**
Nonperforming loans rate[7]	**0.86**	0.85	**1**
Nonperforming loans rate (excluding Acquired Loans)[4]	**1.44**	1.66	**(22)**
Nonperforming asset rate[8]	**1.12**	1.02	**10**
Nonperforming asset rate (excluding Acquired Loans)[4]	**1.86**	1.98	**(12)**
Allowance for loan and lease losses	**$ 752**	$ 711	**6%**
Allowance coverage ratio[9]	**1.06%**	0.95%	**11bps**
Deposits	**$ 167,652**	$ 172,396	**(3)%**
Loans serviced for others	**7,665**	15,333	**(50)**

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

(1) Loans held for investment includes loans acquired in the ING Direct and CCB acquisitions. The carrying value of consumer banking Acquired Loans was $28.2 billion and $36.5 billion as of December 31, 2013 and 2012, respectively. The average balance of consumer banking loans held for investment, excluding Acquired Loans, was $40.8 billion, $36.7 billion and $30.3 billion in 2013, 2012 and 2011, respectively.

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

(3) Calculated by dividing net charge-offs for the period by average loans held for investment during the period.

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

(5) Calculated by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment.

(6) Calculated by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment.

(7) Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty.

(8) 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.

(9) 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 2013, compared with 2012, and changes in financial condition and credit performance between December 31, 2013 and December 31, 2012 include the following:

Net Interest Income: Net interest income increased by $117 million, or 2%, in 2013 to $5.9 billion from $5.8 billion in 2012. The increase in net interest income is primarily attributable to growth in our auto loans, partially offset by lower auto and deposits margins. While average loan balances have grown in 2013 as compared to 2012, we have continued to see a decline in gross interest income due to overall lower average yields on loans. The decrease in auto yields is primarily attributable to a shift in the credit quality mix of our portfolio, as well as increased competition in the marketplace. The average yield on auto loans for 2013 was 9.8%, as compared to 11.0% in 2012. The decrease in home loans was largely driven by the continued expected run-off of the acquired home loans portfolio. The average yield on home loans was 3.4% in 2013 compared to 3.6% in 2012. Average deposit balances increased to $169.7 billion in 2013 from $162.6 billion in 2012, while the average deposit interest rate declined to 0.63% in 2013 from 0.70% in 2012. We expect the yields in our Consumer Banking business to continue to decline as we face increased competition in auto loans, the continued shift to higher credit quality in our auto loan portfolio, and continued deposit rate compression.

Non-Interest Income: Non-interest income decreased by $33 million, or 4%, to $749 million in 2013 from $782 million in 2012 related to the mark-to-market gains on retained interests in interest-only strips and negative amortization mortgage securities recognized in the third quarter of 2012.

Provision for Credit Losses: The provision for credit losses increased by $67 million or 11% in 2013 to $656 million, reflecting higher auto loan charge-offs attributable to auto portfolio growth and an increase in the auto charge-off rate from historically low levels. As discussed above under Summary of Selected Financial Data, the substantial majority of the ING Direct home loan portfolio is accounted for based on estimated cash flows expected to be collected over the life of the loans. Because accounting based on estimated cash flows takes into consideration future credit losses expected to be incurred, charge-offs are not recorded until the expected credit losses within the nonaccretable difference is depleted.

Non-Interest Expense: Non-interest expense decreased by $126 million, or 3%, in 2013 to $3.7 billion. The decrease was largely due to the absence of ING Direct acquisition-related costs and other one-time items incurred in 2012, which were partially offset by increased expenses related to the growth in our auto loan portfolio.

Loans Held for Investment: Period-end loans held for investment in our Consumer Banking business declined by $4.4 billion, or 6%, in 2013, to $70.8 billion as of December 31, 2013, due to the continued expected run-off of acquired home loans, partially offset by higher period-end auto loan balances due to the continued high volume of auto loan originations.

Deposits: Period-end deposits in our Consumer Banking business declined by $4.7 billion, or 3%, in 2013 to $167.7 billion as of December 31, 2013, primarily due to the expected run-off of our legacy National Direct Bank deposits.

Charge-off and Delinquency Statistics: The reported net charge-off rate increased to 0.85% in 2013, from 0.74% in 2012. The 30+ day delinquency rate increased to 3.89% as of December 31, 2013, from 3.34% as of December 31, 2012. The increase in the net charge-off rates reflect moderately higher auto loan charge-offs, partially offset by improved home loan performance. The overall delinquency rates increased moderately largely due to the run-off of the acquired home loans, which were included in the denominator in calculating the delinquency rates.

Key factors affecting the results of our Consumer Banking business for 2012, compared with 2011, and changes in financial condition and credit performance between December 31, 2012 and December 31, 2011 include the following:

Net Interest Income: Net interest income increased by $1.6 billion, or 37%, in 2012. The increase was primarily attributable to the addition of home loans from the ING Direct acquisition, continued growth and strong margin performance in our auto loan portfolio and the addition of low-rate deposits from the ING Direct acquisition. With the addition of deposits from ING Direct, average deposits increased to $162.6 billion in 2012, from $86.9 billion in 2011, while the average deposit interest rate fell to 0.70% in 2012, from 0.96% in 2011. The favorable impact from these items was modestly offset by the expected run-off of acquired home loans.

Non-Interest Income: Non-interest income increased by $62 million, or 9%, in 2012. The increase was primarily attributable to mark-to-market gains on retained interests in interest-only strips and negative amortization mortgage securities recognized in the third quarter of 2012.

Provision for Credit Losses: The provision for credit losses increased by $137 million in 2012 to $589 million. The increase was largely due to higher auto loan balances, which more than offset the benefit from lower net charge-off rates and continued credit performance improvement. We recorded an allowance build of $59 million in 2012, compared with an allowance release of $23 million in 2011.

Non-Interest Expense: Non-interest expense increased by $627 million, or 19%, in 2012. The increase was largely attributable to operating expenses related to ING Direct, merger-related expenses associated with the acquisition and higher infrastructure expenditures resulting from continued investments in the home loan business and growth in auto loan balances as a result of increased auto loan originations.

Loans Held for Investment: Period-end loans in the Consumer Banking business increased by $38.8 billion, or 107%, in 2012 to $75.1 billion as of December 31, 2012, primarily due to the acquisition of $40.4 billion of ING Direct home loans and growth in auto loan originations, which were partially offset by the expected continued run-off of our acquired home loan portfolios.

Deposits: Period-end deposits in the Consumer Banking business increased by $83.9 billion, or 95%, in 2012 to $172.4 billion as of December 31, 2012, primarily due to the addition of ING Direct deposits of $84.4 billion.

Charge-off and Delinquency Statistics: The net charge-off rate decreased to 0.74% in 2012, from 1.39% in 2011. The 30+ day delinquency rate decreased to 3.34% as of December 31, 2012, from 5.99% as of December 31, 2011. The improvement in our reported net charge-off and delinquency rates for our Consumer Banking business reflects the impact of the addition of the ING Direct home loan portfolio. The overall improvement in credit quality metrics, excluding Acquired Loans, reflects improved credit performance in our legacy consumer loan portfolios.

Table of Contents

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 affordable housing tax-related investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

Our Commercial Banking business generated net income from continuing operations of $769 million in 2013, compared with net income from continuing operations of $835 million in 2012 and $595 million in 2011.

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

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

Table 8: Commercial Banking Business Results

	Year Ended December 31,			Change	
(Dollars in millions)	**2013**	**2012**	**2011**	**2013 vs. 2012**	**2012 vs. 2011**
Selected income statement data:					
Net interest income	**$ 1,895**	$ 1,740	$ 1,596	**9%**	9%
Non-interest income	**395**	340	283	**16**	20
Total net revenue	**2,290**	2,080	1,879	**10**	11
Provision (benefit) for credit losses	**(24)**	(270)	31	**91**	(971)
Non-interest expense	**1,119**	1,059	925	**6**	14
Income from continuing operations before income taxes	**1,195**	1,291	923	**(7)**	40
Income tax provision	**426**	456	328	**(7)**	39
Income from continuing operations, net of tax	**$ 769**	$ 835	$ 595	**(8)%**	40%
Selected performance metrics:					
Average loans held for investment:[1]					
Commercial and multifamily real estate	**$ 18,636**	$ 16,256	$ 14,166	**15%**	15%
Commercial and industrial	**21,062**	18,304	15,437	**15**	19
Total commercial lending	**39,698**	34,560	29,603	**15**	17
Small-ticket commercial real estate	**1,073**	1,353	1,671	**(21)**	(19)

Total commercial banking	**$ 40,771**	$ 35,913	$ 31,274	**14%**	15%
Average yield on loans held for investment[2]	**3.88%**	4.25%	4.74%	**(37)bps**	(49)bps
Average deposits	**$ 30,702**	$ 28,266	$ 25,033	**9%**	13%
Average deposit interest rate	**0.27%**	0.32%	0.49%	**(5)bps**	(17)bps
Core deposit intangible amortization .	**$ 27**	$ 34	$ 40	**(21)%**	(15)%
Net charge-offs	**14**	42	177	**(67)**	(76)
Net charge-off rate[3]	**0.03%**	0.12%	0.57%	**(9)bps**	(45)bps

75

Table of Contents

	December 31,		
(Dollars in millions)	**2013**	**2012**	**Change**
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	**$ 20,750**	$ 17,732	**17%**
Commercial and industrial	**23,309**	19,892	**17**
Total commercial lending	**44,059**	37,624	**17**
Small-ticket commercial real estate	**952**	1,196	**(20)**
Total commercial banking	**$ 45,011**	$ 38,820	**16%**
Nonperforming loans rate[4]	**0.33%**	0.73%	**(40)bps**
Nonperforming asset rate[5]	**0.37**	0.77	**(40)**
Allowance for loan and lease losses	**$ 338**	$ 433	**(22)%**
Allowance coverage ratio[6]	**0.75%**	1.12%	**(37)bps**
Deposits	**$ 30,567**	$ 29,866	**2%**

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

(1) Loans held for investment includes loans acquired in the ING Direct and CCB acquisitions. The carrying value of commercial banking Acquired Loans accounted for subsequent to acquisition based on expected cash flows to be collected was $262 million and $359 million as of December 31, 2013 and 2012, respectively. The average balance of commercial banking loans held for investment, excluding Acquired Loans, was $40.5 billion, $35.1 billion and $30.8 billion in 2013, 2012 and 2011, respectively.

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

(3) Calculated by dividing net charge-offs for the period by average loans held for investment during the period.

(4) Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming loans generally include loans that have been placed on non-accrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty.

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

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

Key factors affecting the results of our Commercial Banking business for 2013, compared with 2012, and changes in financial condition and credit performance between December 31, 2013 and December 31, 2012 include the following:

Net Interest Income: Net interest income increased by $155 million, or 9%, in 2013 to $1.9 billion. The increase was primarily driven by growth in our commercial lending business and higher deposit balances.

Non-Interest Income: Non-interest income increased by $55 million, or 16%, in 2013 to $395 million, driven by increased revenue related to fee-based products and services from the Beech Street Capital acquisition.

Provision for Credit Losses: The Commercial Banking business recorded a benefit related to the provision for credit losses of $24 million in 2013, compared with a benefit of $270 million in 2012. The stabilization of the credit outlook has resulted in less allowance release in the current year when compared to the prior year. The combined release for allowance and reserve for unfunded lending commitments was $43 million in 2013, compared with a release of $313 million in 2012.

Non-Interest Expense: Non-interest expense increased by $60 million, or 6%, in 2013 to $1.1 billion, driven by investments in business growth and infrastructure enhancements and the costs associated with Beech Street Capital.

Loans Held for Investment: Period-end loans held for investment in our Commercial Banking business increased by $6.2 billion, or 16%, in 2013, to $45.0 billion as of December 31, 2013. The increase was driven by strong loan originations in the commercial lending business, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

Deposits: Period-end deposits in the Commercial Banking business increased by $701 million, or 2%, to $30.6 billion as of December 31, 2013, from $29.9 billion as of December 31, 2012, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

Charge-off Statistics: The net charge-off rate was 0.03% in 2013, compared to 0.12% in 2012. The nonperforming loan rate decreased to 0.33% as of December 31, 2013, from 0.73% as of December 31, 2012. The continued strength in the credit metrics in our Commercial Banking business reflected stable credit trends and underlying collateral values.

Key factors affecting the results of our Commercial Banking business for 2012, compared with 2011, and changes in financial condition and credit performance between December 31, 2012 and December 31, 2011 include the following:

Net Interest Income: Net interest income increased by $144 million, or 9%, in 2012. The increase was primarily driven by higher deposit balances and growth in commercial real estate and commercial and industrial loans.

Non-Interest Income: Non-interest income increased by $57 million or 20%, in 2012, largely attributable to growth in fees from services provided to customers.

Provision for Credit Losses: The Commercial Banking business recorded a benefit related to the provision for credit losses of $270 million in 2012, compared with a provision of credit losses of $31 million in 2011. The benefit recorded in 2012 reflected a significant decrease in net charge-offs, resulting in an increase in allowance releases attributable to the improvement in underlying credit performance trends. We recorded a release of the combined allowance for loan losses and reserve for unfunded lending commitments of $313 million in 2012, compared with a release of $147 million in 2011.

Non-Interest Expense: Non-interest expense increased by $134 million, or 14%, in 2012. The increase was due to costs associated with higher originations in our commercial real estate and commercial and industrial businesses, expansion into new markets and infrastructure investments.

Loans Held for Investment: Period-end loans increased by $4.5 billion, or 13%, in 2012 to $38.8 billion as of December 31, 2012. The increase was driven by stronger loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the run-off and sale of a portion of the small-ticket commercial real estate loan portfolio.

Deposits: Period-end deposits in the Commercial Banking business increased by $3.2 billion, or 12%, in 2012 to $29.9 billion as of December 31, 2012, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

Charge-off Statistics: The net charge-off rate decreased to 0.12% in 2012, from 0.57% in 2011. The nonperforming loan rate decreased to 0.73% as of December 31, 2012, from 1.08% as of December 31, 2011. The significant improvement in the credit metrics in our Commercial Banking business reflected a continued improvement in credit trends and strengthening of underlying collateral values, resulting in lower loss severities and opportunities for recoveries on previously charged-off loans.

Other Category

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

Net loss from continuing operations recorded in Other was $443 million in 2013, compared with net income from continuing operations of $6 million in 2012 and a net loss from continuing operations of $428 million in 2011.

Table 9 summarizes the financial results of our Other category for the periods indicated.

Table 9: Other Results

	Year Ended December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**
Selected income statement data:			
Net interest income (expense)	**$ (661)**	$ (1,121)	$ (913)
Non-interest income	**(186)**	607	(74)
Total net revenue	**(847)**	(514)	(987)
Provision for credit losses	**(3)**	35	7
Non-interest expense	**211**	162	128
Income from continuing operations before income taxes	**(1,055)**	(711)	(1,122)
Income tax benefit	**(612)**	(717)	(694)
Income (loss) from continuing operations, net of tax	**$ (443)**	$ 6	$ (428)

The shift in the Other category to a net loss from continuing operations of $443 million in 2013 from net income from continuing operations of $6 million in 2012 was primarily due to three non-recurring items recognized in 2012 related to the ING Direct acquisition. We recognized a bargain purchase gain of $594 million related to the ING Direct acquisition and an income of $162 million from the sale of Visa stock shares during the first quarter of 2012, which was partially offset by a derivative loss of $78 million recognized in the first quarter of 2012 related to the interest rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition.

The Other category shifted to net income from continuing operations of $6 million in 2012, from a net loss of $428 million in 2011. The increase is primarily related to the three non-recurring items described above.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets of $297.0 billion as of December 31, 2013 decreased by $15.9 billion, or 5%, from $312.9 billion as of December 31, 2012. Total liabilities of $255.3 billion as of December 31, 2013, decreased by $17.1 billion, or 6%, from $272.4 billion as of December 31, 2012. Stockholders equity increased by $1.2 billion to $41.7 billion as of December 31, 2013. The increase in stockholders equity was primarily attributable to our net income of $4.2 billion for 2013, which was partially offset by an other comprehensive loss of $1.6 billion, largely attributable to an increase in interest rates in the second half of 2013 that reduced the fair value of our investment securities classified as available for sale and resulted in net unrealized losses.

Following is a discussion of material changes in the major components of our assets and liabilities during 2013. 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 ability to manage liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies (Agency); Agency and non-agency residential mortgage-backed securities (RMBS) and commercial mortgage-backed securities (CMBS); other asset-backed securities (ABS) and other investments. The carrying value of our investments in U.S. Treasury, agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 77% of our total investment securities portfolio as of December 31, 2013 and 2012.

Our investment security portfolio includes securities available for sale as well as securities held to maturity. We classify securities as available for sale or held to maturity based on our investment strategy and management s assessment of our intent and ability to hold the securities until maturity. We report securities available for sale in our consolidated balance sheets at fair value with unrealized gains and losses recorded, net of tax, as a component of accumulated other comprehensive income (AOCI). We report securities held to maturity on our consolidated balance sheets at carrying value. Carrying value generally consists of amortized cost. For securities transferred from available for sale to held to maturity, carrying value also includes unrealized gains and losses recognized in AOCI at the date of transfer. Such unrealized gains or losses are accreted over the remaining life of the security with no impact on future net income.

During 2013, the fair value of our investment portfolio decreased by $3.0 billion, or 5% from $64.0 billion as of December 31, 2012 to $61.0 billion as of December 31, 2013. The fair value of our securities available for sale portfolio was $41.8 billion as of December 31, 2013, a $22.2 billion decrease from $64.0 billion as a December 31, 2012. This decrease was primarily driven by the transfer of securities available for sale to securities held to maturity with a fair value of $18.3 billion as of the date of the transfer. We transferred these securities to held to maturity in consideration of changes to regulatory capital requirements under the final Basel III capital standards, and to reduce the impact of price volatility on AOCI. The transferred securities included net pre-tax unrealized losses of $1.5 billion at the date of transfer. Excluding the change on the held to maturity securities subsequent to the transfer, the fair value of our securities decreased $4 billion in 2013 driven by the rise in interest rates and normal portfolio activity.

During 2012, our portfolio of investment securities available for sale increased by $25.2 billion, or 65%. The increase was primarily attributable to the acquisition of ING Direct investment securities of $30.2 billion as of the acquisition date, which was partially offset by the sale of investment securities of approximately $16.9 billion. We recorded a net gain of $45 million from the sale of these securities.

We had gross unrealized gains of $799 million and gross unrealized losses of $631 million on available-for sale investment securities as of December 31, 2013, compared with gross unrealized gains of $1.2 billion and gross unrealized losses of $120 million as of December 31, 2012. The increase in gross unrealized losses in 2013 was primarily driven by higher interest rates. Of the $631 million in gross unrealized losses as of December 31, 2013, $109 million related to securities that had been in a loss position for more than 12 months.

Table of Contents

Table 10 presents the amortized cost, carrying value and fair value for the major categories of our portfolio of investment securities as of December 31, 2013, 2012 and 2011.

Table 10: Investment Securities

	December 31,					
	2013		2012		2011	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale						
U.S. Treasury debt obligations	**$ 831**	**$ 833**	$ 1,548	$ 1,552	$ 115	$ 124
U.S. Agency debt obligations	**1**	**1**	301	302	131	138
Corporate debt securities guaranteed by U.S. government agencies	**1,282**	**1,234**	1,003	1,012		
RMBS:						
Agency	**21,572**	**21,479**	39,408	40,002	24,980	25,488
Non-agency	**3,165**	**3,600**	3,607	3,871	1,340	1,162
Total RMBS	**24,737**	**25,079**	43,015	43,873	26,320	26,650
CMBS:						
Agency	**4,262**	**4,198**	6,045	6,144	697	711
Non-agency	**1,854**	**1,808**	1,425	1,485	459	476
Total CMBS	**6,116**	**6,006**	7,470	7,629	1,156	1,187
Other ABS[1]	**7,123**	**7,136**	8,393	8,458	10,119	10,150
Other securities[2]	**1,542**	**1,511**	1,120	1,153	462	510
Total investment securities available for sale	**$ 41,632**	**$ 41,800**	$ 62,850	$ 63,979	$ 38,303	$ 38,759

(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity						
RMBS:						
Agency	**$ 17,443**	**$ 17,485**	$	$	$	$
CMBS:						
Agency	**1,689**	**1,700**				
Other ABS[1]			9	9		
Total investment securities held to maturity	**$ 19,132**	**$ 19,185**	$ 9	$ 9	$	$

(1) The ABS collateralized by credit card loans constituted of approximately 65% and 64% of the other ABS portfolio, as of December 31, 2013 and 2012, respectively, and ABS collaterized by auto dealer floor plan inventory loans and leases constituted approximately 15% and 18% of the other ABS portfolio, as of December 31, 2013 and 2012, respectively. Approximately 87% of the securities in our other ABS portfolio were rated AAA or its equivalent as of December 31, 2013, compared with 82% as of December 31, 2012.

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

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

Table of Contents

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have low credit risk and high credit ratings, such as securities issued and guaranteed by the U.S. Treasury and other government sponsored enterprises or agencies. Approximately 92% of our total investment securities portfolio was rated AA+ or its equivalent, or better as of both December 31, 2013 and 2012, while approximately 5% and 6% was below investment grade as of December 31, 2013 and 2012, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch).

Table 11 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 December 31, 2013 and 2012.

Table 11: Non-Agency Investment Securities Credit Ratings

	December 31,							
	2013				2012			
(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	**$ 3,165**	**%**	**4%**	**96%**	$ 3,607	%	5%	95%
Non-agency CMBS	**1,854**	**99**	**1**		1,425	97	3	
Other asset-backed securities	**7,123**	**87**	**12**	**1**	8,393	82	17	1
Other securities[1]	**1,542**	**9**	**82**	**9**	1,120	67	24	9

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

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

Loans Held for Investment

Total loans that we manage consist of held for investment loans recorded on our consolidated balance sheets and loans held in our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets in restricted loans for securitization investors. Table 12 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of December 31, 2013 and 2012.

Table 12: Net Loans Held for Investment

	December 31,	
	2013	2012
(Dollars in millions)	Allowance	Allowance

	Total Loans Held For Investment		Net Loans Held For Investment	Total Loans Held For Investment		Net Loans Held For Investment
Credit Card	**$ 81,305**	**$ 3,214**	**$ 78,091**	$ 91,755	$ 3,979	$ 87,776
Consumer Banking	**70,762**	**752**	**70,010**	75,127	711	74,416
Commercial Banking	**45,011**	**338**	**44,673**	38,820	433	38,387
Other	**121**	**11**	**110**	187	33	154
Total	**$ 197,199**	**$ 4,315**	**$ 192,884**	$ 205,889	$ 5,156	$ 200,733

Period-end loans held for investment decreased by $8.7 billion, or 4%, in 2013, to $197.2 billion as of December 31, 2013, from $205.9 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy loan portfolio of $7 billion at the date of transfer to the loans held for sale in the first quarter of 2013, which were further sold in the third quarter of 2013. In addition to the Portfolio Sale, period-end loans held for investment decreased due to expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition and continued expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business. The paydowns and run-off of card balances were partially offset by growth in certain segments of our Credit Card business, higher period-end auto loan balances due to the continued high volume of auto loan originations and strong loan originations in our commercial and industrial and commercial real estate loan portfolios.

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 $218 million as of December 31, 2013, from $201 million as of December 31, 2012. We provide additional information for loans held for sale in Note 4 Loans.

Customer Deposits

Our customer deposits have become our largest source of funding for our operations, providing a sizable and consistent source of low-cost funds. Total customer deposits decreased by $8.0 billion to $204.5 billion as of December 31, 2013, from $212.5 billion as of December 31, 2012, reflecting our scaling back of deposit growth in the current environment of relatively low overall loan growth. 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 $1.1 billion during 2013 to $10.3 billion as of December 31, 2013, from $11.4 billion as of December 31, 2012. The decrease was driven by maturities and repurchases totaling $3.3 billion, partially offset by the issuance of $2.2 billion of credit card securitization debt during 2013.

Other Debt

Other debt, which consists of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including Federal Home Loan Bank (FHLB) advances, but excluding securitized debt obligations, 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. Other debt decreased by $8.1 billion in 2013 from a total of $38.5 billion as of December 31, 2012, of which $21.1 billion represented short-term borrowings and $17.4 billion represented long-term borrowings.

The decrease in other debt was primarily attributable to our redemption of $3.65 billion junior subordinated debt in connection with our redemption of outstanding trust preferred securities in the first quarter of 2013, as well as net maturities of FHLB advances of $4.6 billion during 2013. The above decreases were partially offset by the issuance of $2.0 billion unsecured senior notes during 2013. We provide additional information on our borrowings in Note 9 Deposits and Borrowings.

Table of Contents

Potential Mortgage Representation & Warranty Liabilities

We acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint, which was acquired in December 2006 as part of the North Fork acquisition; and CCB, which was acquired in February 2009 and subsequently merged into CONA.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported in our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans 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 $1.2 billion as of December 31, 2013, compared with $899 million as of December 31, 2012.

The table below summarizes changes in our representation and warranty reserves in 2013 and 2012.

Table 13: Changes in Representation and Warranty Reserve

(Dollars in millions)	Year Ended December 31, 2013	2012
Representation and warranty repurchase reserve, beginning of period[1]	**$ 899**	$ 943
Provision for mortgage representation and warranty losses[2]	**309**	349
Net realized losses	**(36)**	(393)
Representation and warranty repurchase reserve, end of period[1]	**$ 1,172**	$ 899

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

(2) The pre-tax portion of the provision for mortgage representation and warranty losses recognized in our consolidated statements of income as a component of non-interest income was a benefit of $24 million in 2013, compared with a loss of $42 million in 2012. The pre-tax portion of the provision for mortgage representation and warranty losses recognized in our consolidated statements of income as a component of discontinued operations totaled $333 million in 2013 and $307 million in 2012.

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 December 31, 2013, is approximately $2.6 billion, a decline from our estimate of $2.7 billion as of December 31, 2012. The estimate as of December 31, 2013 covers all reasonably possible losses relating to representation and warranty claim activity.

We provide additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserves and the ultimate amount of losses incurred by our subsidiaries, in Note 20 Commitments, Contingencies, Guarantees, and Others.

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was $3.4 billion and $0.5 billion, respectively, as of December 31, 2013, and our maximum exposure to loss was $3.9 billion as of December 31, 2013. 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 an internal risk-based capital assessment, and may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the OCC, respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of assets and off-balance sheet items. Under the capital adequacy standards, bank holding companies and national banks currently are required to maintain a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage capital ratio of at least 4% in order to be considered adequately capitalized.

National banks also are subject to prompt corrective action (PCA) capital regulations. Under PCA regulations, a national bank is considered to be well capitalized if it maintains a total risk-based capital ratio of at least 10% (200 basis points higher than the minimum capital standard above), a Tier 1 risk-based capital ratio of at least 6% (200 basis points higher than the minimum capital standard above), a Tier 1 leverage capital ratio of at least 5% (100 basis points higher than the minimum capital standard above) and is not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital measure. A bank is considered to be adequately capitalized if it meets the above minimum capital standards and does not otherwise meet the well capitalized definition. Currently, PCA capital requirements do not apply to bank holding companies.

We also disclose a Tier 1 common 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. While there is currently no mandated minimum or well capitalized standard for the Tier 1 common ratio, the Federal Reserve, the OCC and the FDIC (collectively, the U.S. federal banking agencies) recently finalized a new capital rule (the Final Rule) that implements the Basel III capital accord

Table of Contents

developed by the Basel Committee and certain Dodd-Frank Act capital provisions and updates the PCA capital requirements. The new capital framework establishes a new minimum Common Equity Tier 1 capital ratio that will be phased-in starting in 2014 for bank holding companies subject to the Advanced risk-based capital rules adopted by the U.S. federal banking agencies (Advanced Approaches). The Final Rule also increases some of the thresholds for the PCA capital categories and adds, effective January 1, 2015, the new Common Equity Tier 1 capital ratio to the PCA regulations.

We disclose a non-GAAP TCE ratio in Summary of Selected Financial Data. While the TCE ratio is a capital measure widely used by investors, analysts 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 F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I.

Table 14 provides a comparison of our capital ratios under the Federal Reserve s capital adequacy standards and the capital ratios of the Banks under the OCC s capital adequacy standards as of December 31, 2013 and 2012.

Table 14: Capital Ratios Under Basel I[(1)]

	December 31, 2013			**December 31, 2012**		
	Capital Ratio	**Minimum Capital Adequacy**	**Well Capitalized**	**Capital Ratio**	**Minimum Capital Adequacy**	**Well Capitalized**
Capital One Financial Corp:						
Tier 1 common[(2)]	**12.23%**	**N/A**	**N/A**	10.96%	N/A	N/A
Tier 1 risk-based capital[(3)]	**12.61**	**4.00%**	**6.00%**	11.34	4.00%	6.00%
Total risk-based capital[(4)]	**14.73**	**8.00**	**10.00**	13.56	8.00	10.00
Tier 1 leverage[(5)]	**10.10**	**4.00**	**N/A**	8.66	4.00	N/A
Capital One Bank (USA) N.A.:						
Tier 1 risk-based capital[(3)]	**11.52%**	**4.00%**	**6.00%**	11.32%	4.00%	6.00%
Total risk-based capital[(4)]	**14.95**	**8.00**	**10.00**	14.74	8.00	10.00
Tier 1 leverage[(5)]	**10.26**	**4.00**	**5.00**	10.43	4.00	5.00
Capital One, N.A:						
Tier 1 risk-based capital[(3)]	**12.73%**	**4.00%**	**6.00%**	13.59%	4.00%	6.00%
Total risk-based capital[(4)]	**13.82**	**8.00**	**10.00**	14.85	8.00	10.00
Tier 1 leverage[(5)]	**9.00**	**4.00**	**5.00**	9.15	4.00	5.00

(1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I. Capital ratios that are not applicable are denoted by N/A. See MD&A Supplemental Tables Table F: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information.

(2) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common capital divided by risk-weighted assets.

(3) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.

(4)

Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.

(5) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

Our Tier 1 common ratio, as calculated under capital standards and regulations based on the international capital framework commonly known as Basel I, increased to 12.23% as of December 31, 2013, up from 10.96% as of December 31, 2012. The increase in our Tier 1 common ratio reflected strong internal capital generation from earnings. We realized the full benefit of the reduction in risk weighted assets from the Portfolio Sale, which was offset by the decline in capital level from the $1 billion repurchase of our common stock in the second half of 2013. We exceeded minimum capital requirements and would meet the well capitalized ratio levels specified under PCA for Tier 1 risk-based capital and total risk-based capital under Federal Reserve capital standards for bank holding companies as of December 31, 2013 and 2012. The Banks also exceeded minimum regulatory

Table of Contents

requirements under the OCC s applicable capital adequacy guidelines and were well capitalized under PCA requirements as of December 31, 2013.

Recent Developments in Capital Requirements

As described above, the U.S. federal banking agencies recently adopted the Final Rule, which increases the minimum capital that we and other institutions are required to hold. Prior to being revised in the Final Rule, the minimum risk-based capital requirements adopted by the U.S. federal banking agencies followed Basel I as noted in Table 14 above and the Advanced Approaches for applicable banks and bank holding companies. Currently, we are subject to Basel I and are in the Advanced Approaches qualification process but are not formally subject to its capital requirements.

The Final Rule modified both Basel I and the Advanced Approaches (as modified, referred to respectively as Basel III Standardized and the Basel III Advanced Approaches). 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 must use Basel III Standardized for calculating our regulatory capital, including as used in our capital ratios, subject to transition periods. In 2014, however, we will continue to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios. Beginning on January 1, 2015, we must use Basel III Standardized for calculating our risk-weighted assets in our regulatory capital ratios.

Basel III Standardized Common Equity Tier 1 capital under the Final Rule includes additional adjustments and deductions not included in Basel I Tier 1 common capital, such as the inclusion of accumulated other comprehensive income from available for sale securities, and the deduction of assets related to defined benefit pension and other post-retirement employee benefit plans.

The following table compares our Tier 1 common capital and risk weighted assets as of December 31, 2013, calculated under Basel I, to our estimated Common Equity Tier I capital and risk weighted assets as of December 31, 2013, calculated under Basel III Standardized, as it applies on January 1, 2014, January 1, 2015 and when fully phased-in. Our estimate of the Common Equity Tier 1 capital ratio under Basel III Standardized is a non-GAAP financial measure. However, we believe this measure provides useful information to investors and others by measuring our progress against regulatory capital standards that will be applicable to the Company beginning in 2014. See the table and notes below for further discussion on our interpretations, expectations and assumptions used in calculating this ratio.

Table of Contents

Table 15: Estimated Common Equity Tier 1 Capital Ratio Under Basel III Standardized

	December 31, 2013		
(Dollars in millions, except ratio)	**2014 Phase-In**	**2015 Phase-In**	**Full Phase-In**
Tier 1 common capital under Basel I rules	**$ 27,487**	**$ 27,487**	**$ 27,487**
Adjustments related to AOCI for securities available for sale and defined benefit pension plans[1]	**(175)**	**(350)**	**(875)**
Adjustments related to PCCR intangible[1]	**(134)**	**(402)**	**(1,207)**
Other adjustments[1][2]	**305**	**230**	**5**
Estimated Common Equity Tier 1 capital under Basel III Standardized	**$ 27,483**	**$ 26,965**	**$ 25,410**
Risk-weighted assets under Basel I rules	**$ 224,671**	**$ 224,671**	**$ 224,671**
Adjustments for Basel III Standardized[3]	**210**	**7,979**	**7,805**
Estimated risk-weighted assets adjusted for Basel III Standardized	**$ 224,881**	**$ 232,650**	**$ 232,476**
Estimated Common Equity Tier 1 capital ratio under Basel III Standardized[4]	**12.2%**	**11.6%**	**10.9%**

(1) Adjustments are phased in at 20% for 2014, at 40% for 2015, and at 100% for 2018 and beyond.

(2) Other adjustments are related to disallowed deferred tax assets from net operating losses and tax credit carry forwards, mortgage servicing rights and other intangibles net of associated deferred tax liabilities.

(3) Adjustments to Basel I risk weighted assets include higher risk weights for 90 days or more past due exposures, high volatility commercial real estate, securitization exposures and corresponding adjustments to PCCR intangibles, deferred tax assets and certain other assets in the calculation of Common Equity Tier 1 capital under Basel III Standardized.

(4) Calculated by dividing Estimated Common Equity Tier 1 capital under Basel III Standardized by estimated risk-weighted assets adjusted for Basel III Standardized.

With respect to the Basel III Advanced Approaches, we expect to enter the parallel run phase no earlier than January 1, 2015. We currently anticipate a multi-year parallel run consistent with the experience of other U.S. banks. By rule, this phase must last at least four consecutive quarters.

Under the Final Rule, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater requirement of the Basel III Standardized and the Basel III Advanced Approaches. We anticipate that we will need to hold more regulatory capital under the Basel III Advanced Approaches than under Basel I or Basel III Standardized to meet our minimum required capital ratios.

Capital Planning and Regulatory Stress Testing

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

On September 24, 2013, the Federal Reserve released an interim final rule that stated, for the first time, that the 2014 CCAR cycle will require us to meet Basel III Standardized capital requirements, with appropriate phase-in provisions applicable to Advanced Approaches institutions during the CCAR planning horizon, under the supervisory severely adverse stress scenario in addition to the capital plan rule s Tier 1 common ratio using Basel I definitions. See Recent Developments in Capital Requirements above for more information regarding Basel

87

Table of Contents

III Standardized capital ratios. In November 2013, the Federal Reserve issued supervisory economic stress scenarios for the 2014 CCAR cycle. We submitted our 2014 capital plan to the Federal Reserve on January 6, 2014. Any proposed capital actions for the second quarter of 2014 through the first quarter of 2015 must be approved as part of the 2014 CCAR cycle.

We consider various factors in the management of capital, including the impact of stress on our capital position, as determined by both our internal modeling and Federal Reserve modeling of our capital position in CCAR. In the 2013 stress test cycle, including CCAR, there was a large difference between our estimates of our capital levels under stress and the Federal Reserve s estimates of our capital levels under stress. In the 2014 stress test cycle, including CCAR, the difference could be larger because, in addition to using its own assumptions in modeling credit losses and pre-provision net revenue, the Federal Reserve will use its own assumptions in modeling balance sheet size and composition. This modeling creates additional differences between our internal models and those of the Federal Reserve in the estimation of both credit losses and pre-provision net revenue. Therefore, although our estimated capital levels under stress suggest that we have substantial capacity to return capital to shareholders and remain well capitalized under stress, it is possible that the Federal Reserve s modeling may result in a materially lower capacity to return capital to shareholders than our estimates.

Dividend Policy and Stock Purchases

We paid common stock dividends of $0.05 per share in the first quarter, and $0.30 per share in the second, third and fourth quarter in 2013. We paid preferred stock dividends of $15.00 per share on the outstanding shares of our 6.00% fixed rate non-cumulative perpetual preferred stock, Series B (the Series B Preferred Stock) in each of the four quarters in 2013. On January 29, 2014, our Board of Directors declared a quarterly dividend of $0.30 per share, payable February 21, 2014 to stockholders of record as of February 10, 2014, and a quarterly dividend of $15.00 per share of Series B Preferred Stock. Each outstanding share of the Series B Preferred Stock is represented by depositary shares, each representing a 1/40th interest in a share of Series B Preferred Stock. The dividend of $15.00 per share (equivalent to $0.375 per outstanding depository share) will be paid on March 3, 2014 to stockholders of record at the close of business on February 14, 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 $2.3 billion and $127 million, respectively, as of December 31, 2013.

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 the third quarter, we began executing the 2013 Stock Repurchase Program and we completed the 2013 Stock Repurchase Program in the fourth quarter.

RISK MANAGEMENT

Risk Framework

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

The starting point of our risk framework is the establishment of governance processes, accountabilities and appetites. Our Board of Directors and senior management establish the tone at the top regarding the importance of internal control, including standards of conduct and the integrity and ethical values of the company. Management reinforces the expectations at the various levels of the organization. This portion of the framework sets the foundation for the methods that govern risk taking, the interactions within and among the lines of defense and the risk appetites and tolerances.

Identify and assess risks and ownership

Identifying and assessing risks and ownership is the beginning of the more detailed day-to-day process of managing risk. This portion of the framework clarifies the importance of strong first-line management and accountability for identifying and assessing risk while specifying the roles of the second line to identify and assess risk, particularly when taking on new initiatives.

Develop and operate controls, monitoring and mitigation plans

We develop, operate and monitor controls to manage risk within tolerance levels. The first line develops controls to oversee and manage identified risks. Controls may prevent risks from occurring (e.g., ensuring compliance with a law or regulation), discover when a risk has been realized, or measure the amount of risk being taken so that the amount may be proactively managed. Whenever possible, plans are implemented to mitigate risks or reduce them to lower levels to reduce exposure. The first line leads mitigation, control and monitoring actions. The second line is a consultant on control design when needed.

Test and detect control gaps and perform corrective action

While the first line is principally accountable for taking, controlling and monitoring risk, the second line oversees and monitors first line risk taking, including the effectiveness of first line controls, and the third line independently tests first and second line controls. These activities provide the second and third lines of defense with the ability to reduce the likelihood of unauthorized or unplanned risk taking within the organization. Identified control gaps are closed by first line corrective action.

Escalate key risks and gaps to executive management, and when appropriate the Board of Directors

Escalation is an important component of our overall Risk Framework. Use of escalation is encouraged and doesn t necessarily indicate a failure on the part of first, second or third line risk management. Through escalation in the first line, decisions requiring judgment can be raised to executives who have the broadest possible context and experience to make challenging choices. Escalation in the second and third lines of defense can also demonstrate part of their core responsibilities of effective challenge. Risks are escalated to the Board of Directors to ensure alignment with high risk decisions and/or transparency to the largest risks facing the organization and to enable Board of Directors engagement when needed.

Calculate and allocate capital in alignment with risk management and measurement processes (including stress testing)

Capital is held to protect the company from unforeseen risks or unexpected risk severity. As such, it is important that capital planning processes be well linked with risk management practices to ensure the appropriate capital protections are in place for the safety and soundness of the company. Stress testing and economic capital measurement, both of which incorporate inputs from across the risk spectrum, are key tools for evaluating our capital position and risk adjusted returns.

Support with the right culture, talent and skills

The right culture, talent and skills are critical to effective risk management. The activities and actions specified in our Risk Framework are supported with the right culture to ensure that both the spirit and the letter of the risk management action are pursued. Skills necessary to effectively manage risk are reinforced through performance management systems. When needed, risk talent is augmented through recruitment of industry experts as well as training and development of internal associates.

Enabled by the right data, infrastructure and systems

Data, infrastructure and programs are key enablers of our overall risk management processes and practices. These core requirements enable effective risk modeling, efficient first, second and third line risk activity performance and cross-line interaction. In addition, effective program design of each risk category is regularly assessed to ensure risk practices continue to evolve with leading industry practice and continue to interact across categories as desired for a strong overall risk management program.

Risk Appetite

Risk appetite refers to the level of risk our business is willing to take in pursuit of our corporate business objectives.The Board of Directors approves our risk appetite including specific risk limits where applicable. While first line executives manage risk on a day-to-day basis, the Chief Risk Officer provides effective challenge and independent oversight to ensure that risks are within the appetite and specific limits established by the Board of Directors. The Chief Risk Officer reports to the Board of Directors regularly on the nature and level of risk across all eight risk categories. In addition to his broader management responsibilities, our Chief Executive Officer is responsible for developing the strategy and mission of our organization, determining and leading our culture, and reviewing and providing input into our risk appetite.

We have a defined Enterprise Risk Appetite Statement, which governs and embraces the overall tenets of our risk management culture. The Enterprise Risk Appetite Statement sets the tone for how our Board of Directors and our company approach risk, supports our mission, values, and strategic imperatives

We have a defined risk appetite for each of our eight risk categories that is approved by our Board of Directors. Stated risk appetites define the parameters for taking and accepting risks and are used by management and our

Table of Contents

Board of Directors to make business decisions. We communicate risk appetite statements, limits and thresholds to the appropriate levels in the organization and monitor adherence.

Risk Categories

We apply our Risk Framework to protect our company from the eight major categories of risk that we are exposed to through our business activities. Our eight major categories of risk are:

- Compliance Risk: Compliance risk is the risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations. Compliance risk can also arise from nonconformance with prescribed practices, internal policies and procedures, contractual obligations, or ethical standards that reinforce those laws, rules, or regulations;

- 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;

- Legal Risk: Legal risk represents the risk of material adverse impact due to: new and changed laws and regulations; interpretations of law; drafting, interpretation and enforceability of contracts; adverse decisions or consequences arising from litigation or regulatory scrutiny; the establishment, management and governance of our legal entity structure; and the failure to seek or follow appropriate Legal counsel when needed;

- 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;

- 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;

- Operational Risk: Operational risk is the risk of loss, capital impairment, adverse customer experience, or reputational impact resulting from failure to comply with policies and procedures, inadequate or failed internal processes or systems, or from external events;

- Reputation Risk: Reputation Risk is the risk to market value, recruitment and retention of talented associates and maintenance of a loyal customer base due to the negative perceptions of Capital One s internal and external constituents regarding Capital One s business strategies and activities; and

- Strategic Risk: Strategic risk is the risk that Capital One fails to achieve short and long-term business objectives because we fail to develop the products, capabilities, and competitive position necessary to attract consumers, beat competitors and withstand market volatility. The result is a failure to deliver long term returns expected by stakeholders.

Below we provide an overview of how we manage our eight primary risk categories.

Compliance Risk Management

We recognize that compliance requirements for financial institutions are increasingly complex and that there are heightened expectations from our regulators and our customers. In response, we continuously evaluate the regulatory environment and pro-actively adjust our compliance risk program to fully address these expectations.

Our Compliance Management Program establishes expectations for determining compliance requirements, assessing the risk of new product offerings, creating appropriate controls and training to address requirements, monitoring for control performance, and independently testing for adherence to compliance requirements.

Business areas incorporate compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls and Corporate Compliance periodically independently tests to validate the effectiveness of business controls.

Table of Contents

Credit Risk Management

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

Our credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation, and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, our goal is to generally provide credit on terms that generate above hurdle returns. We use a number of quantitative and qualitative factors to manage credit risk, including setting credit risk limits and guidelines for each of our lines of business. We monitor performance and forecasts relative to these guidelines and report results and any required mitigating actions to appropriate senior management committees and our Board of Directors.

Legal Risk Management

The General Counsel provides legal evaluation and guidance to the enterprise and business areas and partners with other risk management functions such as Compliance and Internal Audit. This evaluation and guidance is based on an assessment of the type and degree of legal risk associated with the internal business area practices and activities and of the controls the business has in place to mitigate legal risks.

Liquidity Risk Management

We seek to mitigate liquidity risk strategically and tactically. From a strategic perspective, we have acquired and built deposit gathering businesses and significantly reduced our loan to deposit ratio. From a tactical perspective, we have accumulated a sizeable liquidity reserve comprising cash, high-quality, unencumbered securities, and committed collateralized credit lines. This combination of funding and liquidity sources facilitates a diverse access to multiple markets and liquidity sources.

We assess liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation in both idiosyncratic and market wide liquidity stress scenarios. Management reports liquidity metrics to appropriate senior management committees and our Board of Directors no less than quarterly. We continuously monitor market and economic conditions to evaluate emerging stress conditions with assessment and appropriate action plans in accordance with our Liquidity Contingency Plan.

Market Risk Management

We recognize that interest rate and foreign exchange risk is inherent in the business of banking due to the nature of the assets and liabilities of banks. Banks typically manage the trade-off between near-term earnings volatility and market value volatility by targeting moderate levels of each. In addition to using industry accepted techniques to analyze and measure interest rate and foreign exchange risk, we perform sensitivity analysis to identify our risk exposures under a broad range of scenarios. Investment securities and derivatives are the main levers for the management of interest rate and foreign exchange risk.

We manage market risk exposure, which is principally driven by balance sheet interest rate risk, centrally and establish quantitative limits to control our exposure. Market risk is inherent in the financial instruments associated with our business operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives.

The market risk positions of our banking entities and our total company are calculated separately and in total and are reported in comparison to pre-established limits to the Asset Liability Committee monthly and to the Risk Committee of the Board of Directors no less than quarterly. Management is authorized to utilize financial instruments as outlined in our policy to actively manage market risk exposure.

Operational Risk Management

We recognize the criticality of managing operational risk on a day-to-day basis and have expanded our approach to operational risk management based on the growth and complexity of the company. We have appropriate operational risk management policy, standards, processes and tools to enable the delivery of high quality and consistent customer and client experiences. The Operational Risk Management Program establishes requirements and control processes that assure certain consistent practices in the management of operational risk and provides transparency to the corporate operational risk profile. Operational risk practices are currently being aligned with Basel II AMA (Advanced Measurement Approach) requirements.

Reputation Risk Management

We recognize that reputation risk is of particular concern for financial institutions as a result of the aftermath of the financial crisis and economic downturn, which has resulted in increased scrutiny and widespread regulatory changes. We manage both strategic and tactical reputation issues and build our relationships with the government, media, consumer advocates, and other constituencies to help strengthen the reputations of both our company and industry. Our actions include implementing pro-consumer practices in our business and taking public positions in support of better consumer practices in our industry. Day to day activities are controlled by the frameworks set forth in the Reputation Risk Management Policy and other risk management policies.

Strategic Risk Management

We recognize that maintaining a strong capital position is essential to our business strategy and competitive position. We also recognize that regulatory and market expectations for the amount and quality of capital are rising. Understanding and managing risks to our capital position is an underlying objective of all our risk programs. The Chief Executive Officer develops an overall corporate strategy and leads alignment of our entire organization with this strategy through the definition of strategic imperatives and top-down communication. The Chief Executive Officer and other senior executives spend significant time throughout our entire company sharing our corporate strategy and related business strategies and connecting them to day-to-day associate activities to enable effective execution.

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 10 Derivative Instruments and Hedging Activities.

Table of Contents

Primary Loan Products

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial loans.

Credit cards: We originate both prime and subprime credit cards through a variety of channels. Our credit cards generally have variable interest rates. Credit card accounts are underwritten using an automated underwriting system based on predictive models that we have developed. The underwriting criteria, which are customized for individual products and marketing programs, are established based on an analysis of the net present value of expected revenues, expenses and losses, subject to a further analysis using a variety of stress conditions. Underwriting decisions are generally based on credit bureau information, including payment history, debt burden and credit scores, such as FICO, and on other factors, such as applicant income. We maintain a credit card securitization program and selectively sell charged-off credit card loans. Prior to February 1, 2013, we had not securitized any credit card loans since 2009.

Auto loans: We originate both prime and subprime auto loans. Customers are acquired through a network of auto dealers and direct marketing. Our auto loans generally have fixed interest rates and loan terms of 72 months or less. Loan size limits are customized by program and are generally less than $75,000. Similar to credit card accounts, the underwriting criteria are customized for individual products and marketing programs and based on analysis of net present value of expected revenues, expenses and losses, subject to maintaining resilience under a variety of stress conditions. Underwriting decisions are generally based on an applicant s income, estimated debt-to-income ratio, and credit bureau information, along with collateral characteristics such as loan-to-value (LTV) ratio. We generally retain all of our auto loans, though we have securitized auto loans and sold charged-off auto loans in the past and may do so in the future.

Home loans: Most of the existing home loans in our loan portfolio were originated by banks we acquired. The underwriting standards for these loans were less restrictive than our current underwriting standards. Currently, we originate residential mortgage and home equity loans through our branches, direct marketing, and dedicated home loan officers. Our home loan products include conforming and non-conforming fixed rate and adjustable rate mortgage loans, as well as first and second lien home equity loans and lines of credit. In general, our underwriting policy limits for these loans include: (1) a maximum LTV ratio of 80% for loans without mortgage insurance; (2) a maximum LTV ratio of 95% for loans with mortgage insurance or for home equity products; (3) a maximum debt-to-income ratio of 50%; and (4) a maximum loan amount of $3.0 million. Our underwriting procedures are intended to verify the income of applicants and obtain appraisals to determine home values. We may, in limited instances, use automated valuation models to determine home values. Our underwriting standards for conforming loans are designed to meet the underwriting standards required by the agencies at a minimum, and we sell most of our conforming loans to the agencies. We generally retain non-conforming mortgages and home equity loans and lines of credit.

Commercial loans. We offer a range of commercial lending products, including loans secured by commercial real estate and loans to middle market industrial and service companies. Our commercial loans may have a fixed or variable interest rate; however, the majority of our commercial loans have variable rates. Our underwriting standards require an analysis of the borrower s financial condition and prospects, as well as an assessment of the industry in which the borrower operates. Where relevant, we evaluate and appraise underlying collateral and guarantees. We maintain underwriting guidelines and limits for major types of borrowers and loan products that specify, where applicable, guidelines for debt service coverage, leverage, LTV ratio and standard covenants and conditions. We assign a risk rating and establish a monitoring schedule for loans based on the risk profile of the borrower, industry segment, source of repayment, the underlying collateral and guarantees (if any) and current market conditions. Although we generally retain commercial loans, we may syndicate large positions for risk mitigation purposes. In addition, we have sold impaired commercial loans in the past and may do so in the future.

Table of Contents

Loan Portfolio Composition

Our total loan portfolio consists of loans held for investment, loans held for sale and loans underlying our securitization trust. Loans underlying our securitization trusts are reported on our consolidated balance sheets in restricted loans for securitization investors. Table 16 presents the composition of our portfolio of loans held for investment, by business segments, as of December 31, 2013 and 2012. Table 16 also displays Acquired Loans. See the discussion of Loans Acquired below in this section for further information. Table 16 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $218 million and $201 million as of December 31, 2013 and 2012, respectively.

Table 16: Loan Portfolio Composition

	December 31, 2013				December 31, 2012			
(Dollars in millions)	Loans	Acquired Loans	Total(1)	% of Total	Loans	Acquired Loans	Total(1)	% of Total
Credit Card:								
Credit card loans:								
Domestic credit card loans	**$ 72,871**	**$ 61**	**$ 72,932**	**37.0%**	$ 82,058	$ 270	$ 82,328	40.0%
International credit card loans	**8,050**		**8,050**	**4.1**	8,614		8,614	4.2
Total credit card loans	**80,921**	**61**	**80,982**	**41.1**	90,672	270	90,942	44.2
Installment loans:								
Domestic installment loans	**321**	**2**	**323**	**0.1**	795	18	813	0.4
Total credit card	**81,242**	**63**	**81,305**	**41.2**	91,467	288	91,755	44.6
Consumer Banking:								
Auto	**31,852**	**5**	**31,857**	**16.2**	27,106	17	27,123	13.2
Home loan	**7,098**	**28,184**	**35,282**	**17.9**	7,697	36,403	44,100	21.4
Retail banking	**3,587**	**36**	**3,623**	**1.8**	3,870	34	3,904	1.9
Total consumer banking	**42,537**	**28,225**	**70,762**	**35.9**	38,673	36,454	75,127	36.5
Commercial Banking:(2)								
Commercial and multifamily real estate	**20,666**	**84**	**20,750**	**10.5**	17,605	127	17,732	8.6
Commercial and industrial	**23,131**	**178**	**23,309**	**11.8**	19,660	232	19,892	9.7
Total commercial lending	**43,797**	**262**	**44,059**	**22.3**	37,265	359	37,624	18.3
	952		**952**	**0.5**	1,196		1,196	0.5

Small-ticket commercial real estate								
Total commercial banking	**44,749**	**262**	**45,011**	**22.8**	38,461	359	38,820	18.8
Other:								
Other loans	**121**		**121**	**0.1**	154	33	187	0.1
Total loans held for investment	**$ 168,649**	**$ 28,550**	**$ 197,199**	**100.0%**	$ 168,755	$ 37,134	$ 205,889	100.0%

(1) We had a net unamortized premium on purchased loans of $234 million and $461 million as of December 31, 2013 and December 31, 2012, respectively.

(2) Includes construction loans and land development loans totaling $2.0 billion as of December 31, 2013 and $2.1 billion as of December 31, 2012.

Credit Card accounted for $81.3 billion, or 41%, of our total loan portfolio as of December 31, 2013, compared with $91.8 billion, or 45% as of December 31, 2012. We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom. Because of the diversity of our credit card products and national marketing approach, no single geographic concentration exists within the credit card portfolio.

Table of Contents

Consumer Banking accounted for $70.8 billion, or 36%, of our loan portfolio as of December 31, 2013, compared with $75.1 billion, or 37%, of our loan portfolio as of December 31, 2012. The auto portfolio is originated primarily on a national basis, with additional originations through our retail branch network. The home loan portfolio is concentrated in California, New York, Illinois, Maryland, New Jersey, Virginia, and Florida which reflects the characteristics of the ING Direct portfolio that comprises the majority of our home loans. Retail banking includes small business loans and other consumer lending products originated through our branch network.

Commercial Banking represented $45.0 billion, or 23%, of our loan portfolio as of December 31, 2013, compared with $38.8 billion, or 19%, as of December 31, 2012. We operate our Commercial Banking business primarily in geographic regions where we maintain retail bank branches. Accordingly, the portfolio is concentrated in New York, Louisiana and Texas, which represent our largest retail banking markets. Our small-ticket commercial real estate portfolio, which was originated on a national basis through a broker network, is in a run-off mode.

We provide additional information on the geographic concentration, by loan category, of our loan portfolio in Note 4 Loans.

Loans Acquired in Business Acquisitions

As noted above, our portfolio of loans held for investment includes loans acquired in the CCB, ING Direct and 2012 U.S. card acquisitions. These loans were recorded at fair value as of the date of each acquisition. We elect to account for purchased loans using the guidance for accounting for purchased credit-impaired loans, which is based on expected cash flows, unless specifically scoped out of the guidance.

See Note 1 Summary of Significant Accounting Policies Loans for additional information on our accounting for loans, including purchased loans. See Note 4 Loans and Note 5 Allowance for Loan and Lease Losses for additional information on the credit quality of our loan portfolio.

Loan Maturity Profile

Table 17 presents the maturities of loans in our held-for-investment portfolio as of December 31, 2013.

Table 17: Loan Maturity Schedule

	December 31, 2013			
(Dollars in millions)	**Due Up to 1 Year**	**> 1 Year to 5 Years**	**> 5 Years**	**Total**
Fixed rate:				
Credit card[(1)(2)]	**$ 2,841**	**$ 14,025**	**$ 9**	**$ 16,875**
Consumer	**682**	**23,968**	**14,413**	**39,063**
Commercial	**1,034**	**5,456**	**6,633**	**13,123**
Other			**25**	**25**
Total fixed-rate loans	**4,557**	**43,449**	**21,080**	**69,086**
Variable rate:				

Credit card[1]	**64,400**	**30**		**64,430**
Consumer[3]	**14,260**	**13,539**	**3,900**	**31,699**
Commercial	**28,885**	**2,856**	**147**	**31,888**
Other	**80**	**7**	**9**	**96**
Total variable-rate loans	**107,625**	**16,432**	**4,056**	**128,113**
Total loans	**$ 112,182**	**$ 59,881**	**$ 25,136**	**$ 197,199**

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

(2) Includes installment loans of $323 million as of December 31, 2013.

(3) We report the maturity period for the home loans portfolio included in the Consumer Banking business based on the earlier of the next re-pricing or contractual maturity date of the loan.

Credit Risk Measurement

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

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

As noted above, our Credit Card business accounted for $81.3 billion, or 41%, of our total loan portfolio as of December 31, 2013, with Domestic Card accounting for $73.3 billion, or 37%, of our total loan portfolio as of December 31, 2013. In comparison, our Credit Card business accounted for $91.8 billion, or 45%, of our total loan portfolio as of December 31, 2012, with Domestic Card accounting for $83.1 billion, or 40%, of our total loan portfolio as of December 31, 2012. Based on our most recent data, we estimate that approximately one-third of our Domestic Card portfolio had credit scores equal or below 660 or no score, based on loan balances, as of December 31, 2013, relatively consistent with the proportion of the Domestic Card portfolio with credit scores equal or below 660 or no score as of December 31, 2012.

We present information in the table 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 that are accounted for based on estimated cash flows.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer s billing statement. Table 18 compares 30+ day performing and total 30+ day delinquency rates, by loan category, as of December 31, 2013 and 2012. Table 18 also presents these metrics adjusted to exclude from the denominator Acquired Loans accounted for based on estimated cash flows expected to be collected over the life of the loans.

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

Table of Contents

Table 18: 30+ Day Delinquencies

	December 31, 2013						December 31, 2012					
	30+ Day Performing			30+ Day Total			30+ Day Performing			30+ Day Total		
ollars in millions)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjuste Rate(2)
edit Card:												
mestic credit card d installment loans	$ 2,514	3.43%	3.43%	$ 2,514	3.43%	3.43%	$ 3,001	3.61%	3.62%	$ 3,001	3.61%	3.62
ernational credit d	299	3.71	3.71	367	4.56	4.56	308	3.58	3.58	387	4.49	4.49
tal credit card	2,813	3.46	3.46	2,881	3.54	3.55	3,309	3.61	3.62	3,388	3.69	3.70
nsumer Banking:												
to	2,181	6.85	6.85	2,375	7.46	7.46	1,900	7.00	7.01	2,049	7.55	7.56
me loan	55	0.16	0.78	323	0.91	4.55	59	0.13	0.77	380	0.86	4.94
tail banking	25	0.69	0.70	52	1.44	1.46	30	0.76	0.77	81	2.07	2.09
tal consumer nking	2,261	3.20	5.32	2,750	3.89	6.47	1,989	2.65	5.14	2,510	3.34	6.49
mmercial nking:												
mmercial and ltifamily real ate	29	0.14	0.14	64	0.31	0.31	140	0.79	0.79	248	1.40	1.41
mmercial and lustrial	73	0.31	0.32	108	0.46	0.47	73	0.37	0.37	135	0.68	0.69
tal commercial ding	102	0.23	0.23	172	0.39	0.39	213	0.57	0.57	383	1.02	1.03
nall-ticket mmercial real ate	8	0.79	0.79	11	1.17	1.17	33	2.74	2.74	43	3.60	3.60
tal commercial nking	110	0.24	0.25	183	0.41	0.41	246	0.63	0.64	426	1.10	1.11
her:												
her loans	4	3.32	3.32	19	15.72	15.72	11	5.72	6.95	36	19.25	23.38
tal	$ 5,188	2.63%	3.08%	$ 5,833	2.96%	3.46%	$ 5,555	2.70%	3.29%	$ 6,360	3.09%	3.77

(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 accounted for based on estimated cash flows from the denominator.

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

	December 31, 2013		December 31, 2012	
(Dollars in millions)	**Amount**	**% of Total Loans[1]**	**Amount**	**% of Total Loans[1]**
Total loan portfolio	**$ 197,199**	**100%**	$ 205,889	100.0%
Delinquency status:				
30 59 days	**$ 2,617**	**1.33%**	$ 2,664	1.29%
60 89 days	**1,344**	**0.68**	1,440	0.70
90 + days	**1,872**	**0.95**	2,256	1.10
Total	**$ 5,833**	**2.96%**	$ 6,360	3.09%
Geographic region:				
Domestic	**$ 5,466**	**2.77%**	$ 5,973	2.90%
International	**367**	**0.19**	387	0.19
Total	**$ 5,833**	**2.96%**	$ 6,360	3.09%

(1) Calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total held-for-investment loan portfolio, including Acquired Loans accounted for based on estimated cash flows.

Table of Contents

Table 20 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of December 31, 2013, 2012 and 2011. 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

	December 31, 2013		December 31, 2012		December 31, 2011	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:[1]						
Credit card	**$ 1,283**	**1.58%**	$ 1,510	1.65%	$ 1,196	1.84%
Consumer	**2**		1		5	0.01
Commercial	**6**	**0.01**	16	0.04	41	0.12
Total	**$ 1,291**	**0.65%**	$ 1,527	0.74%	$ 1,242	0.91%
Geographic region:[2]						
Domestic	**$ 1,195**	**0.60%**	$ 1,427	0.69%	$ 1,047	0.77%
International	**96**	**0.05**	100	0.05	195	0.14
Total	**$ 1,291**	**0.65%**	$ 1,527	0.74%	$ 1,242	0.91%

(1) Delinquency rates are calculated for each loan category by dividing 90+ day delinquent loans accruing interest by period-end loans held for investment for the specified loan category, including Acquired Loans accounted for based on estimated cash flows as applicable.

(2) Calculated by dividing loans in each geographic region by total period-end loans held for investment.

Nonperforming Assets

Nonperforming assets consist of nonperforming loans and foreclosed property and repossessed assets. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. 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 Loans for information on our policies for classifying loans as nonperforming for each of our loan categories.

Table 21 presents comparative information on nonperforming loans, by loan category, as of December 31, 2013 and 2012, and the ratio of nonperforming loans to our total loans. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value.

Table of Contents

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

(Dollars in millions)	December 31, 2013 Amount	December 31, 2013 % of Total HFI Loans	December 31, 2012 Amount	December 31, 2012 % of Total HFI Loans
Nonperforming loans held for investment:				
Credit card:				
International credit card	**$ 88**	**1.10%**	$ 100	1.16%
Total credit card	**88**	**0.11**	100	0.11
Consumer Banking:				
Auto	**194**	**0.61**	149	0.55
Home loan	**376**	**1.06**	422	0.96
Retail banking	**41**	**1.13**	71	1.82
Total consumer banking	**611**	**0.86**	642	0.85
Commercial Banking:				
Commercial and multifamily real estate	**52**	**0.25**	137	0.77
Commercial and industrial	**93**	**0.40**	133	0.67
Total commercial lending	**145**	**0.33**	270	0.72
Small-ticket commercial real estate	**4**	**0.41**	12	0.97
Total commercial banking	**149**	**0.33**	282	0.73
Other:				
Other loans	**19**	**15.83**	30	15.85
Total nonperforming loans held for investment[4]	**$ 867**	**0.44%**	$ 1,054	0.51%
Other nonperforming assets:				
Foreclosed property[5]	**$ 113**	**0.06%**	$ 204	0.10%
Other assets[6]	**160**	**0.08**	109	0.05
Total other nonperforming assets	**273**	**0.14**	313	0.15
Total nonperforming assets	**$ 1,140**	**0.58%**	$ 1,367	0.66%

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

other nonperforming assets.

(2) The nonperforming loan ratio, excluding Acquired Loans accounted for based on expected cash flows from the denominator, for home loan, total consumer banking, and total nonperforming loans held for investment was 5.29%, 1.44%, and 0.51%, respectively, as of December 31, 2013, compared with 5.48%, 1.66%, and 0.62%, respectively, as of December 31, 2012. The nonperforming asset ratio, excluding the impact of Acquired Loans accounted for based on expected cash flows was 0.63% and 0.71% as of December 31, 2013 and 2012, respectively.

(3) We recognized interest income for loans classified as nonperforming of $40 million and $32 million in 2013 and 2012, respectively. Interest income foregone related to nonperforming loans was $55 million and $41 million in 2013 and 2012, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(4) Nonperforming loans as a percentage of loans held for investment, excluding domestic credit card loans from the denominator, was 0.70% and 0.86% as of December 31, 2013 and 2012, respectively.

(5) Includes foreclosed properties related to Acquired Loans of $68 million and $167 million as of December 31, 2013 and 2012, respectively.

(6) Beginning in the third quarter of 2013, we began including the net realizable value of auto loans that have been charged-off as a result of a bankruptcy in addition to repossessed assets obtained in satisfaction of auto loans. Both of these amounts are included in other assets. Prior period amounts have been adjusted to conform to current period presentation.

Table of Contents

Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans varies based on the loan type. See Note 1 Summary of Significant Accounting Policies Loans for information on our charge-off policy for each of our loan categories.

Table 22 presents our net charge-off amounts and rates, by business segment, in 2013, 2012 and 2011.

Table 22: Net Charge-Offs

	Year Ended December 31,								
	2013			2012			2011		
(Dollars in millions)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjusted Rate(2)
Credit Card:									
Domestic credit card and installment loans	**$ 2,904**	**4.08%**	**4.08%**	$ 2,532	3.53%	3.54%	$ 2,522	4.72%	4.72%
International credit card	**381**	**4.78**	**4.78**	412	4.98	4.98	534	6.18	6.18
Total credit card	**3,285**	**4.15**	**4.15**	2,944	3.68	3.69	3,056	4.92	4.92
Consumer Banking:									
Auto	**546**	**1.85**	**1.85**	414	1.66	1.66	334	1.72	1.72
Home loan	**16**	**0.04**	**0.21**	52	0.12	0.68	77	0.68	1.11
Retail banking	**54**	**1.46**	**1.47**	65	1.57	1.59	73	1.78	1.81
Total consumer banking	**616**	**0.85**	**1.51**	531	0.74	1.45	484	1.39	1.59
Commercial Banking:									
Commercial and multifamily real estate	**(8)**	**(0.04)**	**(0.04)**	5	0.03	0.03	65	0.46	0.47
Commercial and industrial	**15**	**0.07**	**0.07**	8	0.04	0.04	41	0.27	0.27
Total commercial lending	**7**	**0.02**	**0.02**	13	0.04	0.04	106	0.36	0.37

Small-ticket commercial real estate		**7**	**0.62**	**0.62**		29	2.19	2.19		71	4.30	4.30
Total commercial banking		**14**	**0.03**	**0.03**		42	0.12	0.12		177	0.57	0.58
Other:												
Other loans		**19**	**11.34**	**13.96**		38	24.14	24.57		54	25.96	25.96
Total	**$**	**3,934**	**2.04%**	**2.45%**	$	3,555	1.89%	2.34%	$	3,771	2.94%	3.06%
Average loans held for investment	**$**	**192,614**			$	187,915			$	128,424		
Average loans held for investment (excluding Acquired Loans)		**160,459**				151,668				123,416		

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

(2) Calculated by excluding Acquired Loans from the denominator.

101

Table of Contents

Loan Modifications and Restructurings

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

Table 23 presents the loan balances as of December 31, 2013 and 2012, for which loan modifications were made as part of our loss mitigation efforts, all of which are considered to be troubled debt restructurings (TDR). Table 23 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.

Table 23: Loan Modifications and Restructurings

	December 31, 2013		December 31, 2012	
(Dollars in millions)	Amount	% of Total Modifications	Amount	% of Total Modifications
Modified and restructured loans:				
Credit card[1]	**$ 780**	**46.4%**	$ 873	48.7%
Auto	**355**	**21.1**	328	18.3
Home loan	**244**	**14.5**	145	8.1
Retail banking	**64**	**3.8**	65	3.6
Commercial banking	**238**	**14.2**	383	21.3
Total	**$ 1,681**	**100.0%**	$ 1,794	100.0%
Status of modified and restructured loans:				
Performing	**$ 1,250**	**74.4%**	$ 1,419	79.1%
Nonperforming	**431**	**25.6**	375	20.9
Total	**$ 1,681**	**100.0%**	$ 1,794	100.0%

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

The outstanding balance of loan modifications made to assist borrowers experiencing financial difficulties decreased to $1.7 billion as of December 31, 2013, from $1.8 billion as of December 31, 2012. Of these modifications, approximately $431 million, or 26%, were classified as nonperforming as of December 31, 2013, compared with $375 million, or 21%, as of December 31, 2012.

Credit card loan modifications account for the majority of our TDR loan modifications, representing $780 million, or 46%, of the outstanding balance of total TDR loans as of December 31, 2013, and $873 million, or 49%, of the outstanding balance of total TDR loans as of December 31, 2012. The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve a reduction and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. In all cases, we cancel the customer s available line of credit on the credit card. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged-off in accordance with our standard charge-off policy.

Table of Contents

Home loan modifications represented $244 million, or 15%, of the outstanding balance of total modified loans as of December 31, 2013, compared with $145 million, or 8%, of the outstanding balance of total modified loans as of December 31, 2012. The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal forbearance.

Retail banking loan modifications represented $64 million, or 4%, of the outstanding balance of total modified loans as of December 31, 2013 compared with $65 million, or 4%, of the outstanding balance of total loans as of December 31, 2012.

Commercial loan modifications represented $238 million, or 14%, of the outstanding balance of total modified loans as of December 31, 2013, compared with $383 million, or 21%, of the outstanding balance of total modified loans as of December 31, 2012. The vast majority of modified commercial loans include a reduction in interest rate or a term extension.

We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in Note 4 Loans.

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. 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 estimated 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 $1.9 billion as of December 31, 2013, compared with $2.0 billion as of December 31, 2012. TDRs accounted for $1.7 billion and $1.8 billion of impaired loans as of December 31, 2013 and 2012, respectively. We provide additional information on our impaired loans, including the allowance established for these loans, in Note 4 Loans and Note 5 Allowance for Loan and Lease Losses.

Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management s best estimate of incurred loan and lease credit losses inherent in our held for investment portfolio as of each balance sheet date. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses in Note 1 Summary of Significant Accounting Policies.

Table 24 displays changes in our allowance for loan and lease losses for 2013, 2012 and 2011, which details by loan type, the provision for credit losses recognized in our consolidated statements of income each period and charge-offs recorded against the allowance for loan and lease losses.

Table of Contents

Table 24: Allowance for Loan and Lease Losses Activity

	Year Ended December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**
Balance at beginning of period, as reported	**$ 5,156**	$ 4,250	$ 5,628
Provision for credit losses[1]	**3,401**	4,446	2,401
Charge-offs:			
Credit Card:			
Domestic credit card and installment loans	**(3,969)**	(3,507)	(3,558)
International credit card	**(573)**	(652)	(752)
Total credit card	**(4,542)**	(4,159)	(4,310)
Consumer Banking:			
Auto	**(784)**	(631)	(529)
Home loan	**(26)**	(77)	(104)
Retail banking	**(78)**	(89)	(99)
Total consumer banking	**(888)**	(797)	(732)
Commercial Banking:			
Commercial and multifamily real estate	**(6)**	(23)	(76)
Commercial and industrial	**(26)**	(32)	(61)
Total commercial lending	**(32)**	(55)	(137)
Small-ticket commercial real estate	**(17)**	(39)	(77)
Total commercial banking	**(49)**	(94)	(214)
Other loans	**(26)**	(43)	(59)
Total charge-offs	**(5,505)**	(5,093)	(5,315)
Recoveries:			
Credit Card:			
Domestic credit card and installment loans	**1,065**	975	1,036
International credit card	**192**	240	218
Total credit card	**1,257**	1,215	1,254
Consumer Banking:			
Auto	**238**	217	195
Home loan	**10**	25	27
Retail banking	**24**	24	26
Total consumer banking	**272**	266	248

Commercial Banking:			
Commercial and multifamily real estate	**14**	18	12
Commercial and industrial	**11**	25	20
Total commercial lending	**25**	43	32
Small-ticket commercial real estate	**10**	9	5
Total commercial banking	**35**	52	37
Other loans	**7**	5	5
Total recoveries	**1,571**	1,538	1,544
Net charge-offs	**(3,934)**	(3,555)	(3,771)
Impact of loan transfers, sales and other changes[(2)]	**(308)**	15	(8)
Balance at end of period	**$ 4,315**	$ 5,156	$ 4,250
Allowance for loan and lease losses as a percentage of loans held for investment	**2.19%**	2.50%	3.13%

104

Table of Contents

(1) The total provision for credit losses reported in our consolidated statements of income of $3.5 billion, $4.4 billion and $2.4 billion in 2013, 2012 and 2011, respectively, consists of a provision for loan and lease losses and a provision for unfunded lending commitments. The provision for credit losses reported in the above table relates only to the provision for loan and lease losses. It does not include the provision for unfunded lending commitments of $52 million in 2013, and the provision release for unfunded lending commitments of $31 and $41 million in 2012 and 2011, respectively.

(2) Consists of a reduction in the allowance of $289 million, which was attributable to the Portfolio Sale, in the first quarter of 2013. It also contains a foreign translation and other adjustment of $19 million, $15 million, and $8 million in 2013, 2012, and 2011, respectively.

Table 25 presents an allocation of our allowance for loan and lease losses by loan category as of December 31, 2013 and 2012.

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

	December 31, 2013		December 31, 2012	
(Dollars in millions)	Amount	% of Total HFI Loans(1)	Amount	% of Total HFI Loans(1)
Credit Card:				
Domestic credit card and installment loans	**$ 2,836**	**3.87%**	$ 3,526	4.24%
International credit card	**378**	**4.70**	453	5.26
Total credit card	**3,214**	**3.95**	3,979	4.34
Consumer Banking:				
Auto	**606**	**1.90**	486	1.79
Home loan	**83**	**0.24**	113	0.26
Retail banking	**63**	**1.74**	112	2.87
Total consumer banking	**752**	**1.06**	711	0.95
Commercial Banking:				
Commercial and multifamily real estate	**143**	**0.69**	239	1.35
Commercial and industrial	**166**	**0.71**	116	0.58
Total commercial lending	**309**	**0.70**	355	0.94
Small-ticket commercial real estate	**29**	**3.05**	78	6.52
Total commercial banking	**338**	**0.75**	433	1.12
Other loans	**11**	**9.09**	33	17.65
Total	**$ 4,315**	**2.19%**	$ 5,156	2.50%

Total allowance coverage ratios:

Period-end loans held for investment	**$ 197,199**	**2.19%**	$ 205,889	2.50%
Period-end loans held for investment (excluding Acquired Loans)	**168,649**	**2.54**	168,755	3.02
Nonperforming loans[2]	**867**	**497.69**	1,054	489.18
Allowance coverage ratios by loan category:				
Credit card (30+ day delinquent loans)	**$ 2,881**	**111.56%**	$ 3,388	117.44%
Consumer banking (30+ day delinquent loans)	**2,750**	**27.35**	2,510	28.33
Commercial banking (nonperforming loans)	**149**	**226.85**	282	153.55

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

(2) 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 related to our domestic credit card loans, was 170.59% as of December 31, 2013 and 154.65% as of December 31, 2012.

Table of Contents

Our allowance decreased by $841 million to $4.3 billion as of December 31, 2013 from $5.2 billion as of December 31, 2012. The reduction in the allowance was mainly due to a reduction in loan balances, an improved credit outlook, and an allowance transfer of $289 million related to the Portfolio Sale.

LIQUIDITY RISK PROFILE

We have established liquidity guidelines that are intended to ensure we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of readily-marketable or pledgable assets which can be used as a source of liquidity, if needed.

Table 26 below presents the composition of our liquidity reserves as of December 31, 2013 and 2012.

Table 26: Liquidity Reserves

(Dollars in millions)	**December 31, 2013**	December 31, 2012
Cash and cash equivalents	**$ 6,291**	$ 11,058
Investment securities available for sale, at fair value[1]	**41,800**	63,979
Investment securities held to maturity, at fair value[1]	**19,185**	9
Total investment securities portfolio	**60,985**	63,988
FHLB borrowing capacity secured by loans	**28,623**	32,578
Outstanding FHLB advances and letters of credit secured by loans	**(8,917)**	(15,716)
Outstanding FHLB advances and letters of credit secured by securities	**(7,808)**	(5,500)
Securities encumbered for Public Funds and others	**(9,491)**	(8,311)
Total liquidity reserves	**$ 69,683**	$ 78,097

(1) The weighted average life of our securities was approximately 6.3 years and 4.3 years as of December 31, 2013 and 2012, respectively.

Our liquidity reserves decreased by $8.4 billion, or 11%, in 2013, to $69.7 billion as of December 31, 2013 from $78.1 billion in 2012. This decrease was primarily attributable to the redemption of $3.7 billion in trust preferred securities on January 2, 2013, a reduction in the market value of our securities portfolio holdings due to higher interest rates, and a decrease in our FHLB borrowing capacity secured by loans, partially offset by a reduction in our outstanding FHLB advances. See MD&A Risk Management for additional information on our management of liquidity risk.

Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including deposits, short-term borrowings, the issuance of senior and subordinated notes and other borrowings, and loan securitization transactions. In addition, we utilize FHLB advances, which are secured by certain portions of our loan and investment securities portfolios, for our funding needs.

Deposits

Our 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 deposits, average balances, interest expense and average deposit rates for 2013, 2012 and 2011.

Table of Contents

Table 27: Deposit Composition and Average Deposit Rates

	December 31, 2013				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	**$ 22,643**	**$ 21,345**	**N/A**	**10.2%**	**N/A**
Negotiable order of withdrawal (NOW) accounts	**43,880**	**43,823**	**$ 254**	**21.0**	**0.58%**
Money market deposit accounts	**98,403**	**101,848**	**648**	**48.6**	**0.64**
Savings accounts	**29,264**	**27,525**	**66**	**13.2**	**0.24**
Consumer 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**
Certificates of deposit of $100,000 or more	**2,852**	**3,938**	**108**	**1.9**	**2.74**
Foreign time deposits	**1,182**	**1,611**	**4**	**0.8**	**0.25**
Total customer deposits	**$ 204,523**	**$ 209,045**	**$ 1,241**	**100.0%**	**0.59%**

	December 31, 2012				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$ 22,467	$ 19,741	N/A	9.7%	N/A
Negotiable order of withdrawal (NOW) accounts	40,591	34,179	$ 212	16.8	0.62%
Money market deposit accounts	104,540	99,734	684	49.1	0.69
Savings accounts	28,285	30,457	101	15.0	0.33
Consumer time deposits less than $100,000	11,028	12,762	258	6.4	2.02
Total core deposits	206,911	196,873	1,255	97.0	0.64
Certificates of deposit of $100,000 or more	4,495	4,876	144	2.4	2.95
Foreign time deposits	1,079	1,305	4	0.6	0.31
Total customer deposits	$ 212,485	$ 203,054	$ 1,403	100.0%	0.69%

	December 31, 2011				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$ 18,281	$ 17,051	N/A	13.5%	N/A
Negotiable order of withdrawal (NOW) accounts	15,038	13,285	$ 41	10.5	0.31%
Money market deposit accounts	46,496	46,455	396	36.6	0.85

Savings accounts	31,433	29,640	218	23.4	0.74
Consumer time deposits less than $100,000	11,471	13,855	351	10.9	2.53
Total core deposits	122,719	120,286	1,006	94.9	0.84
Certificates of deposit of $100,000 or more	4,586	5,634	177	4.5	3.14
Foreign time deposits	921	774	4	0.6	0.52
Total customer deposits	$ 128,226	$ 126,694	$ 1,187	100.0%	0.94%

Table of Contents

Total customer deposits decreased by $8.0 billion during 2013 to $204.5 billion as of December 31, 2013, from $212.5 billion as of December 31, 2012 as we allowed some higher yielding deposits to run off given our balance sheet needs. Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Brokered deposits are reported in money market deposit accounts and consumer time deposits in the above table. Brokered deposits totaled $6.0 billion, or 3% of total deposits, as of December 31, 2013. Brokered deposits totaled $10.0 billion, or 5% of total deposits, as of December 31, 2012.

FDICIA 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 December 31, 2013 and December 31, 2012, and therefore were permitted to maintain brokered deposits.

Table 28 presents the contractual maturities of large-denomination time deposits of $100,000 or more. Our funding and liquidity management activities factor into the expected maturities of these deposits. Based on past activity, we expect to retain a portion of these deposits as they mature. Accordingly, we expect the actual net cash outflows will be less than the contractual maturity amounts.

Table 28: Maturities of Large Denomination Domestic Time Deposits $100,000 or More

	December 31,			
	2013[1]		2012	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Up to three months	**$ 1,698**	**42.1%**	$ 447	10.0%
> 3 months to 6 months .	**325**	**8.1**	451	10.0
> 6 months to 12 months	**645**	**16.0**	1,948	43.3
> 12 months to 10 years .	**1,365**	**33.8**	1,649	36.7
Total	**$ 4,033**	**100.0%**	$ 4,495	100.0%

(1) In 2013 we began including foreign time deposits greater than $100,000 which were issued in domestic offices in our maturities schedule of large denomination time deposits.

Other Funding Sources

We also access the capital markets to meet our funding needs through the use of 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 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.

Other debt, which consists of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings and FHLB advances, but excluding securitized debt obligations, 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. Other debt decreased by $8.1 billion in 2013 from a total $38.5 billion as of December 31, 2012, of which $21.1 billion represented short-term borrowings and $17.4 billion represented long-term borrowings.

Table of Contents

Table 29 provides information on short-term borrowings, which consist of borrowings with an original contractual maturity of one year or less and therefore does not include the current portion of long-term debt. Our short-term borrowings typically have not represented a significant portion of our overall funding.

Table 29: Short-Term Borrowings

	Year Ended December 31,					
	2013		2012		2011	
(Dollars in millions)	Outstanding Amount	Interest Rate	Outstanding Amount	Interest Rate	Outstanding Amount	Interest Rate
Average during the period:						
Federal funds purchased and repurchase agreements	**$ 1,614**	**0.11%**	$ 1,018	0.18%	$ 2,186	0.21%
FHLB advances	**12,048**	**0.23**	7,169	0.25	1,110	0.19
Total short-term borrowings	**$ 13,662**	**0.22%**	$ 8,187	0.24%	$ 3,296	0.20%

	December 31,								
	2013			2012			2011		
(Dollars in millions)	Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount	Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount	Amount	Weighted Average Interest Rate	Maximum Month-End Outstanding Amount
Period-end balance:									
Federal funds purchased and repurchase agreements	**$ 915**	**0.06%**	**$ 2,258**	$ 1,248	0.28%	$ 1,381	$ 1,464	0.30%	$ 2,111
FHLB advances	**15,300**	**0.25**	**16,600**	19,900	0.27	19,900	5,835	0.13	5,835
Total short-term borrowings	**$ 16,215**	**0.24%**		$ 21,148	0.27%		$ 7,299	0.16%	

Table 30 displays the maturity profile, based on contractual maturities, of our securitized debt obligations and other debt as of December 31, 2013. We provide additional information on our short-term borrowings and long-term debt in Note 9 Deposits and Borrowings.

Table 30: Contractual Maturity Profile of Outstanding Debt

	December 31, 2013						
(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
Short-term borrowings:							

Federal funds purchased and securities loaned or sold under agreements to repurchase	$ 915	$	$	$	$	$	$ 915
FHLB advances	15,300						15,300
Total short-term borrowings	16,215						16,215
Long-term debt:							
Securitized debt obligations	2,958	501	3,521	3,095		214	10,289
Senior and subordinated notes:							
Unsecured senior debt	2,284	2,649	1,481	882	1,176	1,992	10,464
Unsecured subordinated debt	101		1,123			1,446	2,670
Total senior and subordinated notes	2,385	2,649	2,604	882	1,176	3,438	13,134
Other long-term borrowings:							
FHLB advances	943	20	19	19	11	4	1,016
Total long-term debt(1)	6,286	3,170	6,144	3,996	1,187	3,656	24,439
Total short-term borrowings and long-term debt	$ 22,501	$ 3,170	$ 6,144	$ 3,996	$ 1,187	$ 3,656	$ 40,654
Percentage of total	55%	8%	15%	10%	3%	9%	100%

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

Table of Contents

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 9 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 $37.1 billion as of December 31, 2013. This borrowing capacity was secured by posting $28.6 billion of loans and $8.5 billion of securities as collateral. We had outstanding FHLB advances and letters of credit of $16.7 billion as of December 31, 2013, and $20.4 billion still available to us to borrow under this program. The ability to draw down funding is based on membership status and the amount is dependent upon the Banks ability to post collateral. Our FHLB membership is secured by our investment in FHLB stock of $774 million and $1.3 billion as of December 31, 2013 and 2012, respectively, which are determined based on our outstanding advances.

Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 31 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of December 31, 2013 and 2012.

Table 31: Senior Unsecured Debt Credit Ratings

	December 31, 2013			**December 31, 2012**		
	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 February 25, 2014, Moody s, S&P, and Fitch have us on a stable outlook.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short- and long-term liquidity and capital resource needs. Our future cash outflows primarily relate to deposits, borrowings and operating leases. Table 32 summarizes, by remaining contractual maturity, our significant contractual cash obligations based on the undiscounted future cash payments as of December 31, 2013. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 32 excludes certain obligations where the obligation is short-term or subject to valuation based on market factors, such as trade payables and trading liabilities. The table also excludes the representation and warranty reserve of $1.2 billion as of December 31, 2013 and obligations for pension and post-retirement benefit plans, which obligations are discussed in more detail in Note 16 Employee Benefit Plans.

Table of Contents

Table 32: Contractual Obligations

	December 31, 2013				
(Dollars in millions)	Up to 1 Year	> 1 Years to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest-bearing time deposits[1]	$ 6,348	$ 2,983	$ 879	$ 123	$ 10,333
Securitized debt obligations	2,958	4,022	3,095	214	10,289
Other debt:					
Federal funds purchased and securities loaned or sold under agreements to repurchase	915				915
Senior and subordinated notes	2,385	5,253	2,058	3,438	13,134
Other borrowings[2]	16,243	39	30	4	16,316
Total other debt	19,543	5,292	2,088	3,442	30,365
Operating leases	245	440	365	752	1,802
Purchase obligations[3][4]	179	257	110	9	555
Total	$ 29,273	$ 12,994	$ 6,537	$ 4,540	$ 53,344

(1) Includes only those interest-bearing deposits which have a contractual maturity date.
(2) Other borrowings include FHLB advances.
(3) Represents agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. The purchase obligations are included through the termination date of the agreements even if the contract is renewable. These include capital expenditures, contractual commitments to purchase equipment and services, software acquisition/license commitments, contractual minimum media commitments and any contractually required cash payments for acquisitions.
(4) Excludes funding commitments entered into in the ordinary course of business. See Note 20 Commitments, Contingencies, Guarantees, and Others for further details.

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 non-dollar denominated equity invested in those foreign operations. We measure our earnings exposure using a stress-based simulation of foreign exchange rates and manage it through the use of derivatives. As of December 31, 2013 our earnings exposure to changes in foreign exchange rates was less than 2%. 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.

Table of Contents

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. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current asset/liability management policy includes the use of derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $63.4 billion as of December 31, 2013, compared with $57.8 billion as of December 31, 2012.

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 and foreign exchange rates on our net interest income and our economic value of equity. See MD&A Economic Value of Equity .

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

Net Interest Income Sensitivity

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

Economic Value of Equity

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

Table of Contents

In the third quarter of 2013 we updated models and associated assumptions for our direct deposits, mortgage loan and investment security prepayments which impacted our net interest income and economic value of equity sensitivity metrics. Our new direct deposit model was developed on account level data and incorporates lagged responses in both repricing and customer behavior as external market rates change. Additionally, we have updated our mortgage prepayment model. The modeling changes had a small impact on our economic value of equity sensitivity measure, but resulted in a larger impact to our next 12-month net interest income sensitivity, driven primarily from the deposit model change. We have included the table below that shows net interest income and economic value of equity sensitivity as of December 31, 2013 and December 31, 2012.

Table 33 shows the estimated percentage impact on our projected base-line adjusted net interest income and economic value of equity, calculated under the hypothetical interest rate scenarios described above, as of December 31, 2013 and 2012. 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.

Table 33: Interest Rate Sensitivity Analysis

(Dollars in millions)	**December 31, 2013**	**December 31, 2012[(1)]**
Impact on projected base-line adjusted net interest income:		
+200 basis points	**4.9%**	2.7%
-50 basis points	**(1.5)**	(1.7)
Impact on economic value of equity:		
+200 basis points	**(5.7)**	(3.1)
-50 basis points	**0.3**	(1.4)

(1) The measurement as of December 31, 2012 was not adjusted retrospectively for the new model change implemented in 2013.

Our projected net interest income and economic value of equity sensitivity measures were within our prescribed asset/liability policy limits as of December 31, 2013 and 2012.

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 contemplate only certain movements in interest rates and are 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.

Table of Contents

SUPPLEMENTAL TABLES

See Part II- Item 6. Selected Financial Data for information on our supplemental non-GAAP managed results, which we presented prior to our January 1, 2010 prospective adoption of the new consolidation standards. The adoption of these new accounting standards resulted in the consolidation of substantially all of our securitization trusts. As a result, our reported and managed based presentations are generally comparable for periods beginning after January 1, 2010.

Table A Loan Portfolio Composition

			December 31,		
(Dollars in millions)	**2013**	**2012**	**2011**	**2010**	**2009**
Reported loans held for investment:					
Credit Card:					
Credit card loans:					
Domestic credit card loans	**$ 72,932**	$ 82,328	$ 54,682	$ 49,979	$ 13,374
International credit card loans	**8,050**	8,614	8,466	7,513	2,229
Total credit card loans	**80,982**	90,942	63,148	57,492	15,603
Installment loans:					
Domestic installment loans	**323**	813	1,927	3,870	6,693
International installment loans				9	44
Total installment loans.	**323**	813	1,927	3,879	6,737
Total credit card	**81,305**	91,755	65,075	61,371	22,340
Consumer Banking:					
Auto	**31,857**	27,123	21,779	17,867	18,186
Home loan	**35,282**	44,100	10,433	12,103	14,893
Retail banking	**3,623**	3,904	4,103	4,413	5,135
Total consumer banking	**70,762**	75,127	36,315	34,383	38,214
Commercial Banking:					
Commercial and multifamily real estate	**20,750**	17,732	15,736	13,619	13,995
Commercial and industrial	**23,309**	19,892	17,088	14,504	13,617
Total commercial lending	**44,059**	37,624	32,824	28,123	27,612
Small-ticket commercial real estate	**952**	1,196	1,503	1,842	2,153

Total commercial banking	**45,011**	38,820	34,327	29,965	29,765
Other:					
Other loans	**121**	187	175	228	300
Total reported loans held for investment	**$ 197,199**	$ 205,889	$ 135,892	$ 125,947	$ 90,619

114

Table of Contents

(Dollars in millions)	December 31, 2013	2012	2011	2010	2009
Securitization adjustments:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$**	$	$	$	$ 39,827
International credit card loans					5,951
Total credit card loans					45,778
Installment loans:					
Domestic installment loans					406
Total securitization adjustments	**$**	$	$	$	$ 46,184
Managed loans held for investment:					
Credit Card business:					
Credit card loans:					
Domestic credit card loans	**$ 72,932**	$ 82,328	$ 54,682	$ 49,979	$ 53,201
International credit card loans	**8,050**	8,614	8,466	7,513	8,180
Total credit card loans	**80,982**	90,942	63,148	57,492	61,381
Installment loans:					
Domestic installment loans	**323**	813	1,927	3,870	7,099
International installment loans				9	44
Total installment loans	**323**	813	1,927	3,879	7,143
Total credit card	**81,305**	91,755	65,075	61,371	68,524
Consumer Banking Business:					
Auto	**31,857**	27,123	21,779	17,867	18,186
Home loan	**35,282**	44,100	10,433	12,103	14,893
Retail banking	**3,623**	3,904	4,103	4,413	5,135
Total consumer banking	**70,762**	75,127	36,315	34,383	38,214
Commercial Banking Business:					
Commercial and multifamily real estate	**20,750**	17,732	15,736	13,619	13,995
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Small-ticket commercial real estate	**952**	1,196	1,503	1,842	2,153
Total commercial banking	**45,011**	38,820	34,327	29,965	29,765
Other:					

Other loans	**121**	187	175	228	300
Total managed loans held for investment	**$ 197,199**	$ 205,889	$ 135,892	$ 125,947	$ 136,803

115

Table of Contents

Table B Performing Delinquencies

					December 31,					
	2013[(2)]		2012[(2)]		2011[(2)]		2010[(2)]		2009[(2)]	
llars in millions)	Loans	% of Total Loans[(3)]	Loans	% of Total Loans[(3)]	Loans	% of Total Loans[(3)]	Loans	% of Total Loans[(3)]	Loans	% of Total Loans[(3
ported:[(1)(4)]										
ans held for estment	**$ 197,199**	**100.00%**	$ 205,889	100.00%	$ 135,892	100.00%	$ 125,947	100.00%	$ 90,619	100.00
linquent loans:										
59 days	**$ 2,584**	**1.31%**	$ 2,629	1.28%	$ 2,267	1.67%	$ 1,968	1.56%	$ 1,908	2.10
89 days	**1,313**	**0.67**	1,399	0.68	1,043	0.77	1,064	0.85	985	1.09
119 days	**512**	**0.26**	628	0.30	497	0.36	559	0.44	356	0.39
)-149 days	**418**	**0.21**	485	0.24	390	0.29	446	0.36	190	0.21
) or more days	**361**	**0.18**	414	0.20	355	0.26	393	0.31	164	0.18
al	**$ 5,188**	**2.63%**	$ 5,555	2.70%	$ 4,552	3.35%	$ 4,430	3.52%	$ 3,603	3.98
geographic area:										
mestic	**$ 4,889**	**2.48%**	$ 5,247	2.55%	$ 4,114	3.03%	$ 3,998	3.18%	$ 3,460	3.82
ernational	**299**	**0.15**	308	0.15	438	0.32	432	0.34	143	0.16
al	**$ 5,188**	**2.63%**	$ 5,555	2.70%	$ 4,552	3.35%	$ 4,430	3.52%	$ 3,603	3.98
naged:[(1)(4)]										
ans held for estment	**$ 197,199**	**100.00%**	$ 205,889	100.00%	$ 135,892	100.00%	$ 125,947	100.00%	$ 136,803	100.00
linquent loans:										
59 days	**$ 2,584**	**1.31%**	$ 2,629	1.28%	$ 2,267	1.67%	$ 1,968	1.56%	$ 2,623	1.92
89 days	**1,313**	**0.67**	1,399	0.68	1,043	0.77	1,064	0.84	1,576	1.15
119 days	**512**	**0.26**	628	0.30	497	0.36	559	0.44	895	0.65
)-149 days	**418**	**0.21**	485	0.24	390	0.29	446	0.35	660	0.48
) or more days	**361**	**0.18**	414	0.20	355	0.26	393	0.31	568	0.42
al	**$ 5,188**	**2.63%**	$ 5,555	2.70%	$ 4,552	3.35%	$ 4,430	3.52%	$ 6,322	4.62
geographic area:										
mestic	**$ 4,889**	**2.48%**	$ 5,247	2.55%	$ 4,114	3.03%	$ 3,998	3.18%	$ 5,783	4.23
ernational	**299**	**0.15**	308	0.15	438	0.32	432	0.34	539	0.39
al	**$ 5,188**	**2.63%**	$ 5,555	2.70%	$ 4,552	3.35%	$ 4,430	3.52%	$ 6,322	4.62

(1) Credit card loan balances are reported net of the finance charge and fee reserve, which totaled $190 million, $307 million, $74 million, $211 million, $624 million as of December 31, 2013, 2012, 2011, 2010 and 2009, respectively.

(2) Acquired Loan portfolio is included in loans held for investment, but excluded from delinquent loans as these loans are considered performing in accordance with our expectations as of the purchase date, as we recorded these loans at estimated fair value when we acquired them. As of December 31, 2013, 2012, 2011, 2010, and 2009 the acquired loan portfolio s contractual 30 to 89 day delinquencies total $223 million, $369 million, $162, million, $199 million, and $294 million, respectively. For loans 90+ day past due, see MD&A Supplemental Tables Table C: Nonperforming Assets.

(3) Calculated by dividing loans in each delinquency status category and geographic region as of the end of the period by the total loan portfolio.

(4) The performing loan modifications and restructuring totaled $1.3 billion as of December 31, 2013, and $1.4 billion both as of December 31, 2012 and 2011, and $1.0 billion and $713 million as of December 31, 2010 and 2009, respectively.

Table of Contents

Table C Nonperforming Loans and Other Nonperforming Assets

(Dollars in millions)	December 31, 2013	2012	2011	2010	2009
Nonperforming loans held for investment:[1]					
Credit Card:					
International Credit Card	**$ 88**	$ 100	$	$	$
Total credit card	**88**	100			
Consumer Banking:					
Auto	**194**	149	106	99	143
Home loan	**376**	422	456	486	323
Retail banking	**41**	71	90	91	87
Total consumer banking	**611**	642	652	676	553
Commercial Banking:					
Commercial and multifamily real estate	**52**	137	207	276	429
Commercial and industrial	**93**	133	125	181	178
Total commercial lending	**145**	270	332	457	607
Small-ticket commercial real estate	**4**	12	40	38	95
Total commercial banking	**149**	282	372	495	