CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 09, 2013
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# UNITED STATES

# SECURITIES AND EXCHANGE COMMISSION

**Washington, D.C. 20549**

# FORM 10-Q

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

**For the quarterly period ended March 31, 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 Incorporation or Organization)** | **(I.R.S. Employer Identification No.)** |
| **1680 Capital One Drive, McLean, Virginia** | **22102** |
| **(Address of Principal Executive Offices)** | **(Zip Code)** |

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

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

**(Not applicable)**

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

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

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

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

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

As of April 30, 2013, there were 584,162,780 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

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## INDEX OF MD&A TABLES AND SUPPLEMENTAL TABLES

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## PART I FINANCIAL INFORMATION

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

*This discussion contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Please review Forward-Looking Statements for more information on the forward-looking statements in this Quarterly Report on Form 10-Q ( this Report ). Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in Part II Item 1A. Risk Factors in this Report and in Part I Item 1A. Risk Factors in our 2012 Annual Report on Form 10-K ( 2012 Form 10-K ). Unless otherwise specified, references to Notes to our consolidated financial statements are to the Notes to our unaudited condensed consolidated financial statements as of March 31, 2013 included in this Report.*

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related notes in this Report and the more detailed information contained in our 2012 Form 10-K. MD&A is organized in the following sections:



## SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the three months ended March 31, 2013 and 2012, and selected comparative consolidated balance sheet data as of March 31, 2013, and December 31, 2012. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been reclassified to conform to the current period presentation. The comparability of our results of operations between reported periods is impacted by the following acquisitions completed in 2012:

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.

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, $27.8 billion in outstanding credit card receivables designated as held for investment and $327 million in other net assets.

We use the term acquired loans to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank ( 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 $34.9 billion and $37.1 billion as of March 31, 2013 and December 31, 2012, respectively. The difference between the fair value at acquisition and initial 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 the expected cash flows represents the nonaccretable difference or the amount not considered collectible, which approximates what we refer to as the credit mark. The credit mark established under the accounting for these loans takes into consideration future expected credit losses over the life of the loans. Accordingly, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of 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 Credit Risk Profile and Note 4 Loans Acquired Loans.

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**Table 1: Consolidated Financial Highlights (Unaudited)**

| (Dollars in millions, except per share data as noted) | Three Months Ended March 31, 2013 | 2012 | Change |
|---|---|---|---|
| **Income statement** | | | |
| Net interest income[1] | **$ 4,570** | $ 3,414 | **34%** |
| Non-interest income[2] | **981** | 1,521 | **(36)** |
| Total net revenue[3] | **5,551** | 4,935 | **12** |
| Provision for credit losses | **885** | 573 | **54** |
| Non-interest expense[4] | **3,028** | 2,504 | **21** |
| Income from continuing operations before income taxes | **1,638** | 1,858 | **(12)** |
| Income tax provision | **494** | 353 | **40** |
| Income from continuing operations, net of tax | **1,144** | 1,505 | **(24)** |
| Loss from discontinued operations, net of tax[5] | **(78)** | (102) | **(24)** |
| Net income | **1,066** | 1,403 | **(24)** |
| Dividends and undistributed earnings allocated to participating securities | **(5)** | (7) | **(29)** |
| Preferred stock dividends | **(13)** | | ** |
| Net income available to common shareholders | **$ 1,048** | $ 1,396 | **(25)%** |
| **Common share statistics** | | | |
| Earnings per common share: | | | |
| Basic earnings per common share | **$ 1.81** | $ 2.74 | **(34)%** |
| Diluted earnings per common share | **1.79** | 2.72 | **(34)** |
| Weighted average common shares outstanding: | | | |
| Basic earnings per common share | **580.5** | 508.7 | **14** |
| Diluted earnings per common share | **586.3** | 513.1 | **14** |
| Dividends per common share | **0.05** | 0.05 | ** |
| **Average balances** | | | |
| Loans held for investment[6] | **$ 195,997** | $ 152,900 | **28%** |
| Interest-earning assets | **272,345** | 220,246 | **24** |
| Total assets | **303,223** | 246,384 | **23** |
| Interest-bearing deposits | **190,612** | 151,625 | **26** |
| Total deposits | **211,555** | 170,259 | **24** |
| Borrowings | **41,574** | 35,994 | **16** |
| Stockholders equity | **40,960** | 32,982 | **24** |
| **Selected performance metrics** | | | |
| Purchase volume[7] | **$ 45,098** | $ 34,498 | **31%** |
| Total net revenue margin[8] | **8.15%** | 8.96% | **(81)bps** |
| Net interest margin[9] | **6.71** | 6.20 | **51** |
| Net charge-offs | **$ 1,079** | $ 780 | **38%** |
| Net charge-off rate[10] | **2.20%** | 2.04% | **16bps** |
| Net charge-off rate (excluding acquired loans)[11] | **2.69** | 2.40 | **29** |
| Return on average assets[12] | **1.51** | 2.44 | **(93)** |
| Return on average total stockholders equity[13] | **11.17** | 18.25 | **(708)** |
| Equity-to-assets ratio[14] | **13.51** | 13.39 | **12** |
| Non-interest expense as a % of average loans held for investment[15] | **6.18** | 6.55 | **(37)** |
| Efficiency ratio[16] | **54.55** | 50.74 | **381** |
| Effective income tax rate | **30.2** | 19.0 | **1,120** |

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| | March 31, 2013 | December 31, 2012 | Change |
|---|---|---|---|
| **Balance sheet (period end)** | | | |
| Loans held for investment[6] | **$ 191,333** | $ 205,889 | **(7)%** |
| Interest-earning assets | **268,479** | 280,096 | **(4)** |
| Total assets | **300,163** | 312,918 | **(4)** |
| Interest-bearing deposits | **191,093** | 190,018 | **1** |
| Total deposits | **212,410** | 212,485 | ** |
| Borrowings | **37,492** | 49,910 | **(25)** |
| Stockholders equity | **41,296** | 40,499 | **2** |
| **Credit quality metrics (period end)** | | | |
| Allowance for loan and lease losses | **$ 4,606** | $ 5,156 | **(11)%** |
| Allowance as a % of loans held of investment ( allowance coverage ratio ) | **2.41%** | 2.50% | **(9)bps** |
| Allowance as a % of loans held of investment (excluding acquired loans)[11] | **2.91** | 3.02 | **(11)** |
| 30+ days performing delinquency rate | **2.37** | 2.70 | **(33)** |
| 30+ days performing delinquency rate (excluding acquired loans)[11] | **2.90** | 3.29 | **(39)** |
| 30+ days delinquency rate | **2.74** | 3.09 | **(35)** |
| 30+ days delinquency rate (excluding acquired loans)[11] | **3.35** | 3.77 | **(42)** |
| **Capital ratios** | | | |
| Tier 1 common ratio[17] | **11.79%** | 10.96% | **83bps** |
| Tier 1 risk-based capital ratio[18] | **12.18** | 11.34 | **84** |
| Total risk-based capital ratio[19] | **14.43** | 13.56 | **87** |
| Tangible common equity ( TCE ) ratio[20] | **8.61** | 7.90 | **71** |
| **Associates** | | | |
| Full-time equivalent employees (in thousands) | **39.3** | 39.6 | **(1)%** |

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

(1) Premium amortization related to the ING Direct and 2012 U.S. card acquisitions reduced net interest income by $111 million and $30 million in the first quarter of 2013 and 2012, respectively.

(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 $265 million and $123 million in the first quarter of 2013 and 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees.

(4) Includes purchased credit card relationship ( PCCR ) intangible amortization of $116 million and $4 million in the first quarter of 2013 and 2012, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $44 million and $46 million in the first quarter of 2013 and 2012, respectively.

(5) Discontinued operations reflect ongoing costs related to the mortgage origination operations of GreenPoint s wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ( Greenpoint ), which we closed in 2007.

(6) Loans held for investment includes loans acquired in the CCB, ING Direct and 2012 U.S. card acquisitions. The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $34.9 billion and $37.1 billion as of March 31, 2013 and December 31, 2012, respectively. The average carrying value of acquired loans was $35.7 billion and $23.1 billion in the first quarter of 2013 and 2012, respectively. The average balance of loans held for investment, excluding the carrying value of acquired loans, was $160.3 billion and $129.8 billion in the first quarter of 2013 and 2012, respectively. See Note 4 Loans for additional information.

(7) 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 transactions.

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

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

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

(11) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Business Segment Financial Performance, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.

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

(13) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average stockholders equity for the period.

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

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

(16) Calculated based on non-interest expense, excluding goodwill impairment charges, for the period divided by total net revenue for the period.

(17) 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 A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.

(18) 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 A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.

(19) 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 A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.

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

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## INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the Company ) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2013, our principal subsidiaries included:

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

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

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

We had total loans held for investment of $191.3 billion, deposits of $212.4 billion and stockholders equity of $41.3 billion as of March 31, 2013, compared with total loans held for investment of $205.9 billion, deposits of $212.5 billion and stockholders equity of $40.5 billion as of December 31, 2012.

Our consolidated total net revenues are derived primarily from lending to consumer and commercial customers and by deposit gathering activities net of the costs associated with funding our assets, 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. The acquired ING Direct business is primarily reflected in our Consumer Banking business, while the business acquired in the 2012 U.S. card acquisition is reflected in our Credit Card business. Certain activities that are not part of a segment are included in our Other category.

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

- *Consumer Banking*: Consists of our branch-based lending and deposit gathering activities for 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 $1.0 billion.

Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the three months ended March 31, 2013 and 2012. We provide information on the allocation methodologies used to derive our business segment results in Note 20 Business Segments in our 2012 Form 10-K. We also 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 consolidated U.S. GAAP results in Note 13 Business Segments of this Report.

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**Table 2: Business Segment Results**

| | Three Months Ended March 31, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | | | | 2012 | | | |
| | 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 |
| Credit Card | **$ 3,651** | **66%** | **$ 686** | **60%** | $ 2,590 | 53% | $ 566 | 38% |
| Consumer Banking | **1,659** | **30** | **383** | **33** | 1,464 | 30 | 224 | 15 |
| Commercial Banking | **538** | **9** | **203** | **18** | 516 | 10 | 210 | 14 |
| Other[3] | **(297)** | **(5)** | **(128)** | **(11)** | 365 | 7 | 505 | 33 |
| Total from continuing operations | **$ 5,551** | **100%** | **$ 1,144** | **100%** | $ 4,935 | 100% | $ 1,505 | 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) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in Note 20 Business Segments in our 2012 Form 10-K.

**EXECUTIVE SUMMARY AND BUSINESS OUTLOOK**

Each of our businesses delivered solid results in the first quarter of 2013. Our earnings for the quarter, which were led by strong profitability in our Domestic Card business and continued positive credit quality trends, added to our existing capital strength. Notable events during the quarter included the following:

Our redemption on January 2, 2013 of $3.65 billion of our trust preferred securities, which generally carried a higher coupon than other funding sources available to us.

Our February 19, 2013 announcement of our agreement with Best Buy Stores, L.P. ( Best Buy ) to end our contractual credit card relationship early and to sell the Best Buy portfolio of private label and co-branded credit card accounts that we acquired in the 2012 U.S. card acquisition to Citibank, N.A. We reclassified the assets subject to the sale agreement, which included loans of approximately $7 billion as of the date of the transfer, to the held for sale category from the held for investment category in the first quarter. The sale of the portfolio to Citibank, which is subject to customary closing conditions, and early termination of the Best Buy partnership are expected to be finalized in the third quarter of 2013.

In January 2013 we submitted our capital plan to the Board of Governors of the Federal Reserve as part of the 2013 Comprehensive Capital Analysis and Review ( CCAR ). On March 14, 2013, we were informed by the Board of Governors of the Federal Reserve that it had completed its review under the CCAR process and that it did not object to our proposed capital distribution plans submitted pursuant to CCAR, which included an increase in the quarterly dividend on our common stock. On May 2, 2013, our Board of Directors approved an increase in our quarterly common stock dividend per share from $0.05 per share to $0.30 per share, payable May 23, 2013 to stockholders of record as of May 13, 2013.

Our transition from the ING Direct brand to the Capital One 360 brand, which is now the leading digital online depository bank in the U.S. In the near term, we continue to navigate the challenges of the prolonged low interest rate environment, weak consumer demand and the planned run-off of certain acquired mortgage and card loans. However, the ING Direct and 2012 U.S. card acquisitions have strengthened and expanded our customer base and driven substantial growth in our total net revenues, putting us in what we believe is a strong position to generate capital, deliver sustained shareholder value and deepen our customer relationships with new products and services, even in the current challenging environment.

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**Financial Highlights**

We reported net income of $1.1 billion ($1.79 per diluted share) on total net revenue of $5.6 billion for the first quarter of 2013, with each of our three business segments contributing to our earnings. In comparison, we reported net income of $1.4 billion ($2.72 per diluted share), which included a bargain purchase gain of $594 million attributable to the ING Direct acquisition, on total net revenue of $4.9 billion for the first quarter of 2012. Net income, excluding the impact of the bargain purchase gain, was $809 million ($1.56 per diluted share) for the first quarter of 2012.

Our Tier 1 common ratio, as calculated under Basel I, increased to 11.8% as of March 31, 2013, up from 11.0% as of December 31, 2012. The increase in our Tier 1 common ratio reflected strong internal capital generation from earnings. See Capital Management below for additional information.

Below are additional highlights of our performance in the first quarter of 2013. These highlights generally are based on a comparison between our first quarter 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 March 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 of $1.1 billion for the first quarter of 2013 decreased by $337 million, or 24%, from the first quarter of 2012, primarily due to the absence of the bargain purchase gain of $594 million recorded at acquisition of ING Direct in the first quarter of 2012. Excluding the impact of the bargain purchase gain, net income of $1.1 billion for the first quarter of 2013 increased by $257 million, or 32%, from the first quarter of 2012. The increase was driven by growth in net interest income of approximately $1.2 billion attributable to the substantial increase in average interest-earning assets as a result of the ING Direct and 2012 U.S. card acquisitions, which was partially offset by an increase in the provision for credit losses of $312 million and an increase in non-interest expense of $524 million. The increase in the provision was driven by higher net charge-offs resulting from the addition of loans from the 2012 U.S. card acquisition. The increase in non-interest expense was due in part to higher operating expenses associated with the recent acquisitions as well as an increase in intangible amortization expense. Amortization of intangibles totaled $177 million in the first quarter of 2013, compared with $62 million in the first quarter of 2012.

*Loans Held for Investment:* Period-end loans held for investment decreased by $14.6 billion, or 7%, in the first quarter of 2013, to $191.3 billion as of March 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 to the held for sale category. Excluding the transfer of the Best Buy portfolio of approximately $7 billion to held for sale, period-end loans held for investment decreased by approximately $7.6 billion, or 4%, due to typical seasonally lower credit card purchase volumes and higher pay downs in the first quarter of the year, the continued expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition. The pay downs and run-off of card balances were partially offset by higher period-end auto 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.

*Charge-off and Delinquency Statistics*: Our reported net charge-off rate was 2.20% in the first quarter of 2013, compared with 2.04% in the first quarter of 2012. We experienced higher net charge-offs in our Domestic Card business in the first quarter of 2013 due to the addition of loans from the 2012 U.S. card acquisition. Our reported 30+ day delinquency rate declined to 2.74% as of March 31, 2013, from 3.09% as of December 31, 2012. Delinquency rates in our consumer lending businesses have historically exhibited

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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. We provide information on our credit quality metrics, excluding the impact of acquired loans accounted for based on estimated cash flows expected to be collected, below under Business Segments and Credit Risk Profile.

*Allowance for Loan and Lease Losses*: We reduced our allowance by $550 million to $4.6 billion as of March 31, 2013, from $5.2 billion as of December 31, 2012. The reduction was attributable to the transfer of the Best Buy loan portfolio to held for sale and an allowance release of $261 million. The allowance coverage ratio declined to 2.41% as of March 31, 2013, from 2.50% as of December 31, 2012, due in part to an improved credit outlook.

*Representation and Warranty Reserve*: We recorded a provision for mortgage representation and warranty losses of $97 million in the first quarter of 2013, compared with a provision for mortgage representation and warranty losses of $169 million in the first quarter of 2012. Our mortgage representation and warranty reserve increased to $994 million as of March 31, 2013, from $899 million as of December 31, 2012.

***Business Segments***

*Credit Card:* Our Credit Card business generated net income from continuing operations of $686 million in the first quarter of 2013, an increase of $120 million, or 21%, from net income from continuing operations of $566 million in the first quarter of 2012. The increase in earnings reflected the impact of the 2012 U.S. card acquisition, which contributed to an increase in total net revenues of $1.1 billion. The net revenue increase was partially offset by a higher provision for credit losses and higher operating expenses, including PCCR intangible amortization expense of $113 million, resulting from the 2012 U.S. card acquisition. Period-end loans held for investment in our Credit Card business decreased by $13.4 billion, or 15%, in the first quarter of 2013, to $78.4 billion as of March 31, 2013, from $91.8 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy portfolio to the held for sale category. Excluding the transfer of the Best Buy portfolio, period-end loans held for investment decreased by $6.4 billion, or 7%, due in part to typical seasonally lower purchase volumes and higher pay downs in the first quarter of the year, the expected continued run-off of our installment loan portfolio, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition. We experience fluctuations in purchase volumes and the level of outstanding receivables in our Credit Card business due to higher seasonal consumer spending and payment patterns around the winter holiday season, summer vacations and back-to-school periods.

*Consumer Banking:* Our Consumer Banking business generated net income from continuing operations of $383 million in the first quarter of 2013, an increase of $159 million, or 71%, from net income from continuing operations of $224 million in the first quarter of 2012. The results for the first quarter of 2013 reflect a full-quarter impact from ING Direct, whereas the results for the first quarter of 2012 reflect a partial-quarter impact. The increase in earnings was attributable to growth in total net revenue and a decrease in non-interest expense. Growth in net revenue was primarily due to a significant increase in average loan balances due to the addition of home loans from the ING Direct acquisition and higher auto loan originations over the past twelve months. The decrease in non-interest expense was largely due to the absence of ING Direct acquisition-related costs incurred in the first quarter of 2012, which was partially offset by increased expenses related to the growth in our auto loan portfolio. Period-end loans held for investment in our Consumer Banking business declined by $1.5 billion, or 2%, to $73.6 billion as of March 31, 2013, from $75.1 billion as of December 31, 2012, due to the continued run-off of acquired home loans, which was partially offset by higher period-end auto balances due to the continued portfolio growth.

*Commercial Banking:* Our Commercial Banking business generated net income from continuing operations of $203 million in the first quarter of 2013, a decrease of $7 million, or 3%, from net income from continuing operations of $210 million in the first quarter of 2012. Growth in commercial real estate and commercial and industrial loans and higher deposit balances contributed to an increase in total net revenues. The favorable impact from higher net revenue was offset by a lower negative provision for credit losses of

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$35 million recorded in the first quarter of 2013, compared with a negative provision of $69 million recorded in the first quarter of 2012. Period-end loans held for investment in our Commercial Banking business increased by $330 million, or 1%, in the first quarter of 2013 to $39.2 billion as of March 31, 2013, from $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 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 Quarterly Report on Form 10-Q. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in Part I Item 1. Business and Part I Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect: (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed, or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See Forward-Looking Statements in this Quarterly Report on Form 10-Q for more information on the forward-looking statements in this report and Item 1A. Risk Factors in our 2012 Form 10-K 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 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 new 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 that are appropriate for a bank of our size and business mix so that we can meet the rising regulatory and compliance expectations facing all banks and deliver a brand-defining customer experience that builds and sustains a valuable, long-term customer franchise. The ING Direct and 2012 U.S. card acquisitions strengthened and expanded our customer base and over time, we expect these acquisitions to expand and deepen our customer relationships with new products and services.

We expect average interest-earning assets to decline in 2013. We expect average loan balances for full-year 2013 to decline from average loan balances for full-year 2012, as significant run-off of certain mortgage and card loans we acquired, coupled with the sale of the Best Buy portfolio expected to be finalized in the third quarter of 2013, is partially offset by growth in our businesses. We expect run-off and sales of approximately $19 billion in ending loan balances in 2013, primarily comprised of approximately $10 billion in run-off of mortgage loans acquired from ING Direct and CCB, approximately $2 billion in run-off of certain other credit card loans purchased in the 2012 U.S. card acquisition and approximately $7 billion from the sale of the Best Buy portfolio. We expect this decline to be partially offset by growth in certain of our businesses, including Auto, Commercial Banking and parts of Domestic Card. However, we expect continued weak consumer demand across our Credit Card and Auto lending businesses, as well as intensifying competition in several businesses, particularly Auto and commercial and industrial lending.

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We continue to expect total net revenue in 2013 to be approximately $22.5 billion. We also expect non-interest expense in 2013 to total approximately $12.5 billion, comprised of operating expense of approximately $11 billion and marketing expense of approximately $1.5 billion. We expect these estimates to vary within a reasonable margin, and they do not contemplate the potential impact of non-recurring items.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity levels, and a strong capital generation trajectory. We exceeded an assumed Basel III Tier 1 common ratio internal target of 8% in the first quarter. Our estimated Basel III capital trajectory includes the estimated impact of implementing the Basel II Advanced Approaches to calculate regulatory capital, which we expect will apply to us in 2016 or later. The assumed 8% Basel III Tier 1 common ratio target assumes a buffer of 50 basis points for a systemically important financial institution under applicable rules and regulations and a further buffer of 50 basis points to cover potential volatility in both the numerator and denominator of the Tier 1 common ratio. Our actual operating levels for capital will vary over time depending on our outlook for near-to-medium term growth, our view of where we are in the economic cycle and our resilience under ongoing stress-testing processes. The assumed Basel III Tier 1 common level is estimated based on our current interpretation, expectations and understanding of the Basel III capital rules and other capital regulations proposed by U.S. regulators and the application of such rules to our businesses as currently conducted. Basel III calculations are necessarily subject to change based on, among other things, the scope and terms of the final rules and regulations, model calibration and other implementation guidance, changes in our businesses and certain actions of management, including those affecting the composition of our balance sheet. We believe this ratio provides useful information to investors and others by measuring our progress against expected future regulatory capital standards.

***Business Segment Expectations***

*Credit Card Business*

As noted above, in Domestic Card, the closing of the 2012 U.S. card acquisition has impacted and will continue to affect quarterly trends in loan growth, revenue margin and credit metrics. We anticipate that the run-off of parts of the portfolio acquired in the 2012 U.S. card acquisition, the sale of the Best Buy portfolio as well as anticipated run-off in our installment loan portfolio will result in a decline in full-year average loan balances in 2013 from average loan balances in 2012.

*Consumer Banking Business*

In our Consumer Banking business, we expect the ING Direct acquisition to continue to have a significant impact on Consumer Banking loan volumes as we anticipate that run-off in the acquired home loan portfolios will more than offset growth in auto loans.

*Commercial Banking Business*

Our Commercial Banking business continues to grow loans, deposits, and revenues as we attract new customers and deepen relationships with existing customers. We expect our Commercial Banking business to continue to deliver steady growth.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under Note 1 Summary of Significant Accounting Policies in our 2012 Form 10-K.

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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
- Representation and warranty reserve
- Customer rewards reserve
- Income taxes

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions. We discuss below changes we made in the first quarter of 2013 in estimating the allowance for loan and lease losses and reserve for unfunded lending commitments for our commercial loan portfolio. Management has discussed our critical accounting policies and estimates with the Audit and Risk Committee of the Board of Directors.

**Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Commercial Loans**

Our commercial loan portfolio is primarily composed of larger-balance, non-homogeneous loans. We determine the allowance for loan and lease losses ( 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 in determining the occurrence of a loss event and measuring impairment. 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.

In the first quarter of 2013, we changed our process for estimating the allowance and reserve for unfunded lending commitments for our commercial loan portfolio. First, we extended our internal historical credit loss experience period back to at least 2008 and incorporated external industry loss data over a longer horizon to derive our loss estimates. We previously generally used the most recent three-year period of internal historical loss experience to derive our loss estimates. Second, we incorporated more borrower-specific and loan-specific risk factors into our analysis and established a statistically-based internal risk rating system. Based on this statistically-based risk rating system, we now apply an estimated probability of default and loss given default for nearly each loan in our portfolio to derive the total loss estimate for our commercial loan portfolio. These changes, which were supplemented by management judgment, resulted in a net increase in the combined allowance and reserve for unfunded lending commitments of $37 million as of March 31, 2013 and a corresponding increase in the provision for credit losses of $37 million in the first quarter of 2013. The gross impact of these changes resulted in a decrease in the allowance of $2 million and an increase in the reserve for unfunded lending commitments of $39 million as of March 31, 2013. We do not expect these changes to have a material future impact on our allowance and reserve for unfunded lending commitments for our commercial loan portfolio. See Note 5 Allowance for Loan and Lease Losses in this Report for additional information.

We provide additional information on our critical accounting policies and estimates under MD&A Critical Accounting Policies and Estimates in our 2012 Form 10-K.

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## 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 sections(s) of MD&A.

## CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the three months ended March 31, 2013 and 2012. 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 primarily include loans held for investment 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 are 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 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned or interest expense incurred, and average yield or cost for the three months ended March 31, 2013 and 2012.

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

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| (Dollars in millions) | Average Balance | Interest Income/ Expense[(2)] | Yield/ Rate | Average Balance | Interest Income/ Expense[(2)] | Yield/ Rate |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Credit card:[(3)] | | | | | | |
| Domestic | **$ 78,985** | **$ 2,816** | **14.26%** | $ 54,131 | $ 1,910 | 14.11% |
| International | **8,238** | **329** | **15.97** | 8,301 | 340 | 16.38 |
| Credit card | **87,223** | **3,145** | **14.42** | 62,432 | 2,250 | 14.41 |
| Consumer banking[(4)] | **74,456** | **1,102** | **5.92** | 56,482 | 1,015 | 7.19 |
| Commercial banking | **38,579** | **377** | **3.91** | 34,245 | 380 | 4.44 |
| Other | **183** | **25** | **54.64** | 173 | 12 | 27.75 |
| Total loans, including loans held for sale | **200,441** | **4,649** | **9.28** | 153,332 | 3,657 | 9.54 |
| Investment securities | **64,798** | **374** | **2.31** | 50,543 | 298 | 2.36 |
| Cash equivalents and other interest-earning assets | **7,106** | **28** | **1.58** | 16,371 | 24 | 0.59 |
| Total interest-earning assets | **$ 272,345** | **$ 5,051** | **7.42%** | $ 220,246 | $ 3,979 | 7.23% |
| Cash and due from banks | **2,642** | | | 12,540 | | |
| Allowance for loan and lease losses | **(4,954)** | | | (4,334) | | |
| Premises and equipment, net | **3,682** | | | 2,898 | | |
| Other assets | **29,508** | | | 15,034 | | |
| Total assets | **$ 303,223** | | | $ 246,384 | | |
| Liabilities and stockholders equity: | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits | **$ 190,612** | **$ 326** | **0.68%** | $ 151,625 | $ 311 | 0.82% |
| Securitized debt obligations | **11,758** | **56** | **1.91** | 16,185 | 80 | 1.98 |
| Senior and subordinated notes | **11,984** | **82** | **2.74** | 10,268 | 88 | 3.43 |
| Other borrowings | **17,832** | **17** | **0.38** | 9,541 | 86 | 3.61 |
| Total interest-bearing liabilities | **$ 232,186** | **$ 481** | **0.83%** | $ 187,619 | $ 565 | 1.20% |
| Non-interest bearing deposits | **20,943** | | | 18,634 | | |
| Other liabilities | **9,134** | | | 7,149 | | |
| Total liabilities | **262,263** | | | 213,402 | | |
| Stockholders equity | **40,960** | | | 32,982 | | |
| Total liabilities and stockholders equity | **$ 303,223** | | | $ 246,384 | | |
| Net interest income/spread | | **$ 4,570** | **6.59%** | | $ 3,414 | 6.03% |
| Impact of non-interest bearing funding | | | **0.12** | | | 0.17 |
| Net interest margin | | | **6.71%** | | | 6.20% |

(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 $480 million and $283 million in the first quarter of 2013 and 2012, respectively. Premium amortization related to the ING Direct and 2012 U.S. card acquisitions reduced net interest income by $111 million and $30 million in the first quarter of 2013 and 2012, respectively.
(3) Credit card loans consist of domestic and international credit card loans and installment loans.
(4) Consumer banking loans consist of auto, home and retail banking loans.

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

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

| | Three Months Ended March 31, 2013 vs. 2012 | | |
|---|---|---|---|
| | Total | Variance Due to | |
| **(Dollars in millions)** | **Variance** | **Volume** | **Rate** |
| **Interest income:** | | | |
| Loans: | | | |
| Credit card | **$ 895** | **$ 894** | **$ 1** |
| Consumer banking | **87** | **286** | **(199)** |
| Commercial banking | **(3)** | **45** | **(48)** |
| Other | **13** | **1** | **12** |
| Total loans, including loans held for sale | **992** | **1,226** | **(234)** |
| Investment securities | **76** | **82** | **(6)** |
| Cash equivalents and other interest-earning assets | **4** | **(19)** | **23** |
| Total interest income | **1,072** | **1,289** | **(217)** |
| **Interest expense:** | | | |
| Deposits | **15** | **72** | **(57)** |
| Securitized debt obligations | **(24)** | **(21)** | **(3)** |
| Senior and subordinated notes | **(6)** | **13** | **(19)** |
| Other borrowings | **(69)** | **42** | **(111)** |
| Total interest expense | **(84)** | **106** | **(190)** |
| Net interest income | **$ 1,156** | **$ 1,183** | **$ (27)** |

(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.

Net interest income of $4.6 billion in the first quarter of 2013 increased by $1.2 billion, or 34%, from the first quarter of 2012, driven by a 24% increase in average interest-earning assets and an 8% (51 basis point) expansion of the net interest margin to 6.71%.

*Average Interest-Earning Assets*: The increase in average interest-earning assets reflects the full-quarter impact of the addition of loans and investment securities from the acquisition of ING Direct in the first quarter of 2012 and the addition of loans from the 2012 U.S. card acquisition in the second quarter of 2012. Growth in average-interest earning assets also was driven by strong commercial loan growth and continued growth in auto loans, which was partially offset by the transfer of the Best Buy loan portfolio of approximately $7 billion to the held for sale category in the first quarter of 2013, the continued run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition.

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*Net Interest Margin*: The 51 basis point improvement in our net interest margin was primarily attributable to a reduction in our cost of funds of 37 basis points to 0.83% for the first quarter of 2013. The redemption on January 2, 2013 of $3.65 billion of our trust preferred securities, which generally carried a higher coupon than other funding sources available to us, accounted for approximately 11 basis points of the reduction in our funding costs. The remaining reduction 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.

**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. The other component of non-interest income includes the pre-tax provision for mortgage representation and warranty losses related to continuing operations. Other 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 5 displays the components of non-interest income for the first quarter of 2013 and 2012.

**Table 5: Non-Interest Income**

| | Three Months Ended March 31, | |
|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** |
| Service charges and other customer-related fees | **$ 550** | $ 415 |
| Interchange fees, net | **445** | 328 |
| Bargain purchase gain[1] | | 594 |
| Net other-than-temporary impairment ( OTTI ) | **(25)** | (14) |
| Other non-interest income: | | |
| Provision for mortgage representation and warranty losses[2] | **9** | (17) |
| Net gains from the sale of investment securities | **2** | 11 |
| Net fair value losses on free-standing derivatives[3] | **(5)** | (86) |
| Other | **5** | 290 |
| Other non-interest income | **11** | 198 |
| Total non-interest income | **$ 981** | $ 1,521 |

(1) Represents the amount by which the fair value of the net assets acquired in the ING Direct acquisition, as of the acquisition date of February 17, 2012, exceeded the consideration transferred.

(2) We recorded a total provision for mortgage representation and warranty losses of $97 million and $169 million in the first quarter of 2013 and 2012, 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 $8 million and $9 million as of March 31, 2013 and December 31, 2012, respectively. See Note 9 Derivative Instruments and Hedging Activities for additional information.

Non-interest income of $981 million in the first quarter of 2013 decreased by $540 million, or 36%, from non-interest income of $1.5 billion in the first quarter of 2012.

The decrease in non-interest income reflected the combined unfavorable impact of (i) the absence of the bargain purchase gain of $594 million recognized at acquisition of ING Direct in the first quarter of 2012 and (ii) the absence of income of $162 million from the sale of Visa stock shares in the first quarter of 2012.

The unfavorable impact of these items was partially offset by the favorable impact of (i) 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; (ii) the absence of expense of $75 million for expected customer refunds attributable to credit card cross-selling issues and (iii) the absence of 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.

We recorded net OTTI losses of $25 million in the first quarter of 2013, compared with $14 million in the first quarter of 2012. The OTTI losses in each period were attributable to deterioration in the credit performance of loans underlying certain non-agency mortgage-backed securities. Our portfolio of non-agency mortgage backed securities significantly increased as a result of our acquisition of ING Direct in the first quarter of 2012, which contributed to the increase in OTTI losses in the first quarter of 2013. We provide additional information on other-than-temporary impairment recognized on our securities available for sale in Note 3 Investment Securities.

**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 and the level of allowance for loan and lease losses that we determine is necessary to provide for probable loan and lease losses incurred that are inherent in our loan portfolio as of each balance sheet date.

We recorded a provision for credit losses of $885 million in the first quarter of 2013, compared with $573 million in the first quarter of 2012. The increase in the provision for credit losses in the first quarter of 2013 from the first quarter of 2012 was driven by higher net charge-offs resulting from the addition of loans from the 2012 U.S. card acquisition, coupled with growth in auto loan balances and commercial loan originations.

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 and Note 5 Allowance for Loan and Lease Losses. For information on the allowance methodology for each of our loan categories, see Note 1 Summary of Significant Accounting Policies in our 2012 Form 10-K.

**Non-Interest Expense**

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing technology expenses, and other miscellaneous expenses. Non-interest expense also includes marketing costs, merger-related expense and amortization of intangibles. Table 6 displays the components of non-interest expense for the first quarter of 2013 and 2012.

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**Table 6: Non-Interest Expense**

| (Dollars in millions) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Salaries and associate benefits | **$ 1,080** | $ 864 |
| Occupancy and equipment | **350** | 270 |
| Marketing | **317** | 321 |
| Professional services | **307** | 293 |
| Communications and data processing | **210** | 172 |
| Amortization of intangibles[1] | **177** | 62 |
| Acquisition-related | **46** | 86 |
| Other non-interest expense: | | |
| Collections | **129** | 137 |
| Fraud losses | **52** | 40 |
| Bankcard, regulatory and other fee assessments | **138** | 110 |
| Other | **222** | 149 |
| Other non-interest expense | **541** | 436 |
| Total non-interest expense | **$ 3,028** | $ 2,504 |

(1) Includes PCCR intangible amortization of $116 million and $4 million in the first quarter of 2013 and 2012, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $44 million and $46 million in the first quarter of 2013 and 2012, respectively.

Non-interest expense of $3.0 billion in the first quarter of 2013 increased by $524 million, or 21%, from the first quarter of 2012. The increase reflected higher operating expenses, increased salaries and associate benefits and infrastructure costs attributable to acquired businesses, amortization of intangibles resulting from the ING Direct and 2012 U.S. card acquisitions and expenses related to the growth in our auto loan portfolio, which was partially offset by a reduction in acquisition-related costs.

**Income Taxes**

We recorded an income tax provision on income from continuing operations of $494 million (30.2% effective income tax rate) in the first quarter of 2013, compared with an income tax provision of $353 million (19.0% effective income tax rate) in the first quarter of 2012. Our effective tax rate 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 tax rate in the first quarter of 2013 from the first quarter of 2012 was primarily attributable to the absence of the non-taxable bargain purchase gain of $594 million recorded in the first quarter of 2012 related to the ING Direct acquisition, which substantially reduced our effective tax rate in first quarter of 2012.

Our effective income tax rate excluding the impact of the non-taxable bargain purchase gain was 30.2% and 28.1% in the first quarter of 2013 and 2012, respectively. The increase in the effective tax rate in the first quarter of 2013 was primarily due to higher pre-tax earnings in the first quarter of 2013 compared with the first quarter of 2012, which diluted the relative tax benefit from tax credits and tax-exempt income.

We provide additional information on items affecting our income taxes and effective tax rate in our 2012 Form 10-K under Note 18 Income Taxes.

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**Loss from Discontinued Operations, Net of Tax**

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

We recorded a loss from discontinued operations, net of tax, of $78 million and $102 million in the first quarter of 2013 and 2012, respectively. The variance in the loss from discontinued operations between the first quarter of 2013 and the first quarter of 2012 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 $97 million in the first quarter of 2013, compared with a total pre-tax provision of $169 million in the first quarter of 2012. The portion of these amounts included in loss from discontinued operations totaled $107 million ($67 million net of tax) and $153 million ($97 million, net of tax) in the first quarter of 2013 and 2012, respectively.

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

**BUSINESS SEGMENT FINANCIAL PERFORMANCE**

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 accounting and reporting process to derive our business segment results. Our internal management accounting 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 provide additional information on the allocation methodologies used to derive our business segment results in Note 20 Business Segments in our 2012 Form 10-K.

We refer to the business segment results derived from our internal management accounting and reporting process as our managed presentation, which differs in some cases from our reported results prepared based on U.S. GAAP. There is no comprehensive, authoritative body of guidance for management accounting equivalent to U.S. GAAP; therefore, the managed basis presentation of our business segment results may not be comparable to similar information provided by other financial service companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP. See Note 13 Business Segments of this Report for a reconciliation of our total business segment results to our reported consolidated results.

Below we summarize our business segment results for the first quarter of 2013 and 2012 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of March 31, 2013, compared with December 31, 2012. Information on the outlook for each of our business segments is presented above under Executive Summary and Business Outlook.

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**Credit Card Business**

Our Credit Card business generated net income from continuing operations of $686 million in the first quarter of 2013, an increase of $120 million, or 21%, from net income from continuing operations of $566 million in the first quarter of 2012. The primary sources of revenue for our Credit Card business are interest income and non-interest income from customers and interchange fees. Expenses primarily consist of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

On February 1, 2013, we transferred the Best Buy loan portfolio, which had loan balances of approximately $7 billion as of the date of the transfer, to held for sale from held for investment. While the transfer of this portfolio reduced period-end loans held for investment for Domestic Card, the accounting for held for sale loans had a favorable impact on Domestic Card total net revenue and the provision for credit losses, as charge-offs of finance charges, fees and principal are reflected in the carrying value of loans classified as held for sale.

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

**Table 7: Credit Card Business Results**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **Change** |
| **Selected income statement data:** | | | |
| Net interest income[1] | **$ 2,830** | $ 1,992 | **42%** |
| Non-interest income | **821** | 598 | **37** |
| Total net revenue[2] | **3,651** | 2,590 | **41** |
| Provision for credit losses | **743** | 458 | **62** |
| Non-interest expense[3] | **1,848** | 1,268 | **46** |
| Income from continuing operations before income taxes | **1,060** | 864 | **23** |
| Income tax provision | **374** | 298 | **26** |
| Income from continuing operations, net of tax | **$ 686** | $ 566 | **21%** |
| **Selected performance metrics:** | | | |
| Average loans held for investment[4] | **$ 82,952** | $ 62,432 | **33%** |
| Average yield on loans held for investment[5] | **15.16%** | 14.41% | **75bps** |
| Total net revenue margin[6] | **17.61** | 16.59 | **102** |
| Net charge-offs | **$ 922** | $ 645 | **43%** |
| Net charge-off rate[7] | **4.45%** | 4.14% | **31bps** |
| PCCR intangible amortization[3] | **$ 116** | $ 4 | ****%** |
| Purchase volume[8] | **45,098** | 34,498 | **31** |

| **(Dollars in millions)** | **March 31, 2013** | **December 31, 2012** | **Change** |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment[4] | **$ 78,397** | $ 91,755 | **(15)%** |
| 30+ days performing delinquency rate[9] | **3.44%** | 3.61% | **(17)bps** |
| 30+ days delinquency rate[10] | **3.53** | 3.69 | **(16)** |
| 30+ days delinquency rate (excluding acquired loans)[11] | **3.54** | 3.70 | **(16)** |
| Nonperforming loan rate[12] | **0.12** | 0.11 | **1** |
| Allowance for loan and lease losses | **$ 3,494** | $ 3,979 | **(12)%** |
| Allowance coverage ratio[13] | **4.46%** | 4.34% | **12bps** |

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

(1) Includes premium amortization related to the 2012 U.S. card acquisition of $43 million in the first quarter of 2013.

(2) 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 $265 million and $123 million in the first quarter of 2013 and 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees.

(3) Includes PCCR intangible amortization expense of $116 million and $4 million in the first quarter of 2013 and 2012, respectively, of which $113 million in the first quarter of 2013 is attributable to the PCCR intangible asset of $2.2 billion recorded in connection with the closing on May 1, 2012 of the 2012 U.S. card acquisition.

(4) 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.

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

(6) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. The transfer of the Best Buy portfolio to held for sale resulted in an increase in the net revenue margin for Total Card of 112 basis points in the first quarter of 2013.

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

(8) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.

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

(10) 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.

(11) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Summary of Selected Financial Data, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.

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

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

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

*Net Interest Income*: Net interest income increased by $838 million, or 42%, in the first quarter of 2013 to $2.8 billion, 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 and higher average yields on loans held for investment. The increase in average loan yields was largely due to the transfer of the Best Buy loan portfolio, which generally had lower yields relative to our overall loan portfolio, to the held for sale category in the first quarter of 2013.

*Non-Interest Income*: Non-interest income increased by $223 million, or 37%, in the first quarter of 2013 to $821 million. 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. Purchase volume increased by $10.6 billion, or 31%, in the first quarter of 2013. Excluding purchase volume attributable to loans from the 2012 U.S. card acquisition, purchase volume increased by approximately 5% in the first quarter of 2013.

*Provision for Credit Losses*: The provision for credit losses related to our Credit Card business increased to $743 million in the first quarter of 2013, from $458 million in the first quarter of 2012. The increase in the provision was primarily driven by higher net charge-offs resulting from the addition of loans from the 2012 U.S. card acquisition, which more than offset the impact of an improving credit outlook . Although higher

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net charge-offs drove an increase in the provision for credit losses, we reduced the allowance related to our Credit Card business by $485 million in the first quarter of 2013 to $3.5 billion as of March 31, 2013. The reduction was attributable to the transfer of the Best Buy loan portfolio to held for sale, as well as an allowance release of $196 million. In comparison, our Credit Card business recorded an allowance release of $176 million in the first quarter of 2012.

*Non-Interest Expense*: Non-interest expense increased by $580 million, or 46%, in the first quarter of 2013 to $1.8 billion. 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 $113 million in the first quarter of 2013.

*Loans Held for Investment:* Period-end loans held for investment in our Credit Card business decreased by $13.4 billion, or 15%, in the first quarter of 2013, to $78.4 billion as of March 31, 2013. The decrease was due in part to the transfer of the Best Buy loan portfolio to the held for sale category. Excluding the transfer of the Best Buy loan portfolio of approximately $7 billion to held for sale, period-end loans held for investment decreased by $6.4 billion, or 7%, due in part to typical seasonally lower purchase volumes and higher pay downs in the first quarter of the year, the continued run-off of our installment loan portfolio, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition.

*Charge-off and Delinquency Statistics:* Our reported net charge-off rate increased to 4.45% in the first quarter of 2013, from 4.14% in the first quarter of 2012. The increase was primarily driven by higher net charge-offs resulting from the addition of loans from the 2012 U.S. card acquisition. The 30+ day delinquency rate decreased to 3.53% as of March 31, 2013, from 3.69% as of December 31, 2012.

***Domestic Card Business***

Domestic Card generated net income from continuing operations of $644 million in the first quarter of 2013, an increase of $129 million, or 25%, from net income from continuing operations of $515 million in the first quarter of 2012. Domestic Card accounted for 90% of total net revenues for our Credit Card business in the first quarter of 2013, compared with 85% in the first quarter of 2012. Income attributable to Domestic Card represented 94% of income for our Credit Card business in the first quarter of 2013, compared with 91% in the first quarter of 2012.

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

**Table 7.1: Domestic Card Business Results**

| (Dollars in millions) | Three Months Ended March 31, 2013 | 2012 | Change |
|---|---|---|---|
| **Selected income statement data:** | | | |
| Net interest income[1] | **$ 2,556** | $ 1,713 | **49%** |
| Non-interest income | **724** | 497 | **46** |
| Total net revenue | **3,280** | 2,210 | **48** |
| Provision for credit losses | **647** | 361 | **79** |
| Non-interest expense[2] | **1,633** | 1,052 | **55** |
| Income from continuing operations before income taxes | **1,000** | 797 | **25** |
| Income tax provision | **356** | 282 | **26** |
| Income from continuing operations, net of tax | **$ 644** | $ 515 | **25%** |
| **Selected performance metrics:** | | | |
| Average loans held for investment[3] | **$ 74,714** | $ 54,131 | **38%** |
| Average yield on loans held for investment[4] | **15.07%** | 14.11% | **96bps** |
| Total net revenue margin[5] | **17.56** | 16.33 | **123** |
| Net charge-offs | **$ 827** | $ 531 | **56%** |
| Net charge-off rate[6] | **4.43%** | 3.92% | **51bps** |
| PCCR intangible amortization[2] | **$ 116** | $ 4 | ****%** |
| Purchase volume[7] | **41,831** | 31,417 | **33** |

| (Dollars in millions) | March 31, 2013 | December 31, 2012 | Change |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment[3] | **$ 70,361** | $ 83,141 | **(15)%** |
| 30+ days delinquency rate[8] | **3.37%** | 3.61% | **(24)bps** |
| 30+ days delinquency rate (excluding acquired loans)[9] | **3.38** | 3.62 | **(24)** |
| Allowance for loan and lease losses | **$ 3,057** | $ 3,526 | **(13)%** |

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

(1) Includes premium amortization related to the 2012 U.S. card acquisition of $43 million in the first quarter of 2013.

(2) Includes amortization expense of $113 million in the first quarter of 2013 related to the PCCR intangible asset of $2.2 billion recorded in connection with the closing on May 1, 2012 of the 2012 U.S. card acquisition.

(3) 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.

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

(5) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. The transfer of the Best Buy portfolio to held for sale resulted in an increase in the net revenue margin for Domestic Card of 123 basis points in the first quarter of 2013.

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

(7) 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 transactions.

(8)

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.

(9) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Summary of Selected Financial Data, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.

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Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business. The increase in Domestic Card net income from continuing operations in the first quarter of 2013, compared with the first quarter of 2012 reflected the impact of the following items: (i) an increase in net interest income and non-interest income, primarily attributable to the substantial increase in average loans held for investment, higher average loan yields and increased fees resulting from the 2012 U.S. card acquisition; (ii) an increase in the provision for credit losses, driven by higher net charge-offs resulting from the addition of loans from the 2012 U.S. card acquisition; and (iii) an increase in non-interest expense, also largely due to operating expenses related to the 2012 U.S. card acquisition as well as amortization of intangibles and other assets associated with the 2012 U.S. card acquisition.

***International Card Business***

International Card generated net income from continuing operations of $42 million in the first quarter of 2013, a decrease of $9 million, or 18%, from net income from continuing operations of $51 million in the first quarter of 2012. International Card accounted for 10% of total net revenues for our Credit Card business in the first quarter of 2013, compared with 15% in the first quarter of 2012. Income attributable to International Card represented 6% of income for our Credit Card business in the first quarter of 2013, compared with 9% in the first quarter of 2012. Table 7.2 summarizes the financial results for International Card and displays selected key metrics for the periods indicated.

**Table 7.2: International Card Business Results**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **Change** |
| **Selected income statement data:** | | | |
| Net interest income | **$ 274** | $ 279 | **(2)%** |
| Non-interest income | **97** | 101 | **(4)** |
| Total net revenue | **371** | 380 | **(2)** |
| Provision for credit losses | **96** | 97 | **(1)** |
| Non-interest expense | **215** | 216 | ** |
| Income from continuing operations before income taxes | **60** | 67 | **(10)** |
| Income tax provision | **18** | 16 | **13** |
| Income from continuing operations, net of tax | **$ 42** | $ 51 | **(18)%** |
| **Selected performance metrics:** | | | |
| Average loans held for investment[1] | **$ 8,238** | $ 8,301 | **(1)%** |
| Average yield on loans held for investment[2] | **15.97%** | 16.38% | **(41)bps** |
| Total net revenue margin[3] | **18.01** | 18.31 | **(30)** |
| Net charge-offs | **$ 95** | $ 114 | **(17)%** |
| Net charge-off rate[4] | **4.59%** | 5.52% | **(93)bps** |
| Purchase volume[5] | **$ 3,267** | $ 3,081 | **6%** |

| **(Dollars in millions)** | **March 31, 2013** | **December 31, 2012** | **Change** |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment[1] | **$ 8,036** | $ 8,614 | **(7)%** |
| 30+ days performing delinquency rate[6] | **4.04%** | 3.58% | **46bps** |
| 30+ days delinquency rate[7] | **4.93** | 4.49 | **44** |
| Nonperforming loan rate[8] | **1.13** | 1.16 | **(3)** |
| Allowance for loan and lease losses | **$ 437** | $ 453 | **(4)%** |

** 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 annualized interest income for the period by average loans held for investment during the period for the specified loan category.
(3) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category.
(4) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
(5) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
(6) Calculated by loan category by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
(7) 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.
(8) Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. Nonperforming credit card loans generally include international card loans that are 90 or 120 days delinquent.

The results for International Card in the first quarter of 2013 were comparable to the first quarter of 2012, as average loan balances, yields and expenses remained relatively stable.

**Consumer Banking Business**

Our Consumer Banking business generated net income from continuing operations of $383 million in the first quarter of 2013, an increase of $159 million, or 71%, from net income from continuing operations of $224 million in the first quarter of 2012. 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 ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services and communications and data processing technology expenses, as well as marketing expenditures.

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.

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

**Table 8: Consumer Banking Business Results**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **Change** |
| **Selected income statement data:** | | | |
| Net interest income | **$ 1,478** | $ 1,288 | **15%** |
| Non-interest income | **181** | 176 | **3** |
| Total net revenue | **1,659** | 1,464 | **13** |
| Provision for credit losses | **175** | 174 | **1** |
| Non-interest expense | **890** | 943 | **(6)** |
| Income from continuing operations before income taxes | **594** | 347 | **71** |
| Income tax provision | **211** | 123 | **72** |
| Income from continuing operations, net of tax | **$ 383** | $ 224 | **71%** |
| **Selected performance metrics:** | | | |
| Average loans held for investment:(1) | | | |
| Auto | **$ 27,477** | $ 22,582 | **22%** |
| Home loan | **43,023** | 29,502 | **46** |
| Retail banking | **3,786** | 4,179 | **(9)** |
| Total consumer banking | **$ 74,286** | $ 56,263 | **32%** |
| Average yield on loans held for investment(2) | **5.93%** | 7.20% | **(127)bps** |
| Average deposits | **$ 171,089** | $ 129,915 | **32%** |
| Average deposit interest rate | **0.64%** | 0.73% | **(9)bps** |
| Core deposit intangible amortization | **$ 37** | $ 37 | ****%** |
| Net charge-offs | **143** | 109 | **(31)** |
| Net charge-off rate(3) | **0.78%** | 0.77% | **1bps** |
| Net charge-off rate (excluding acquired loans)(4) | **1.47** | 1.29 | **18** |
| Automobile loan originations | **$ 3,789** | $ 4,270 | **(11)%** |

| **(Dollars in millions)** | **March 31, 2013** | **December 31, 2012** | **Change** |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment:(1) | | | |
| Auto | **$ 27,940** | $ 27,123 | **3%** |
| Home loan | **41,931** | 44,100 | **(5)** |
| Retail banking | **3,742** | 3,904 | **(4)** |
| Total consumer banking | **$ 73,613** | $ 75,127 | **(2)%** |
| 30+ days performing delinquency rate(5) | **2.24%** | 2.65% | **(41)bps** |
| 30+ days performing delinquency rate (excluding acquired loans)(4) | **4.20** | 5.14 | **(94)** |
| 30+ days delinquency rate(6) | **2.81** | 3.34 | **(53)** |
| 30+ days delinquency rate (excluding acquired loans)(4) | **5.27** | 6.49 | **(122)** |
| Nonperforming loans rate(7) | **0.74** | 0.85 | **(11)** |
| Nonperforming loans rate (excluding acquired loans)(4) | **1.39** | 1.66 | **(27)** |
| Nonperforming asset rate(8) | **0.80** | 0.91 | **(11)** |
| Nonperforming asset rate (excluding acquired loans)(4) | **1.49** | 1.76 | **(27)** |

| | | | |
|---|---|---|---|
| Allowance for loan and lease losses | **$ 743** | $ 711 | **5%** |
| Allowance coverage ratio(9) | **1.01%** | 0.95% | **6bps** |
| Deposits | **$ 172,605** | $ 172,396 | ****%** |
| Loans serviced for others | **14,869** | 15,333 | **(3)** |

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

(1) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank acquisitions. The carrying value of consumer banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $34.4 billion and $36.5 billion as of March 31, 2013 and December 31, 2012, respectively. The average balance of consumer banking loans held for investment, excluding the carrying value of acquired loans, was $39.2 billion and $33.7 billion in the first quarter of 2013 and 2012, respectively.

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

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

(4) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.

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

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

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

(8) Calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment, REO, and other foreclosed assets for the specified loan category.

(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 the first quarter of 2013, compared with the first quarter of 2012, and changes in financial condition and credit performance between March 31, 2013 and December 31, 2012 include the following:

*Net Interest Income:* Net interest income increased by $190 million, or 15%, in the first quarter of 2013 to $1.5 billion. The increase was primarily attributable to a significant increase in average loans held for investment due to the addition of home loans from the ING Direct acquisition and higher auto loan originations over the past twelve months, which was partially offset by the continued expected run-off of acquired home loans. The favorable impact of the increase in average loan balances more than offset the decrease in average loans yields due to the shift in the composition of our consumer loan portfolio from the addition of the acquired ING Direct loans, which generally had lower yields.

*Non-Interest Income:* Non-interest income increased slightly by $5 million, or 3%, in the first quarter 2013 to $181 million.

*Provision for Credit Losses:* The provision for credit losses related to our Consumer Banking business of $175 million in the first quarter of 2013, was comparable to the provision of $174 million in the first quarter of 2012, reflecting modestly higher auto loan charge-offs attributable to the continued high volume of auto loan originations, which was offset by an allowance release for our home loan portfolio. 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 the credit mark established at acquisition for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition.

*Non-Interest Expense*: Non-interest expense decreased by $53 million, or 6%, in the first quarter of 2013 to $890 million. The decrease was largely due to the absence of ING Direct acquisition-related costs incurred in the first quarter of 2012, which was 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 $1.5 billion, or 2%, in the first quarter of 2013, to $73.6 billion as of March 31, 2013, due to the continued expected run-off of acquired home loans, which was partially offset by higher period-end auto balances due to the continued high volume of auto loan originations.

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*Deposits*: Period-end deposits in our Consumer Banking business of $172.6 billion as of March 31, 2013, remained relatively stable compared with period-end deposits of $172.4 billion as of December 31, 2012.

*Charge-off and Delinquency Statistics*: The reported net charge-off rate of 0.78% in the first quarter of 2013 was relatively unchanged from 0.77% in the first quarter of 2012. However, the 30+ day delinquency rate decreased to 2.81% as of March 31, 2013, from 3.34% as of December 31, 2012. As discussed above under Summary of Selected Financial Data, the addition of the ING Direct home loan portfolio affects our reported credit metrics, as the credit mark established at acquisition for these loans takes into consideration future credit losses expected to be incurred. Accordingly, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of these loans. The overall improvement in delinquency rates reflects improved credit performance in our legacy consumer loan portfolios.

**Commercial Banking Business**

Our Commercial Banking business generated net income from continuing operations of $203 million in the first quarter of 2013, a decrease of $7 million, or 3%, from net income from continuing operations of $210 million in the first quarter of 2012. 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 ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services and communications and data processing technology expenses, as well as marketing expenditures.

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

**Table 9: Commercial Banking Business Results**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **Change** |
| **Selected income statement data:** | | | |
| Net interest income | **$ 454** | $ 431 | **5%** |
| Non-interest income | **84** | 85 | **(1)** |
| Total net revenue | **538** | 516 | **4** |
| Provision for credit losses | **(35)** | (69) | **(49)** |
| Non-interest expense | **258** | 261 | **(1)** |
| Income from continuing operations before income taxes | **315** | 324 | **(3)** |
| Income tax provision | **112** | 114 | **(2)** |
| Income from continuing operations, net of tax | **$ 203** | $ 210 | **(3)%** |
| **Selected performance metrics:** | | | |
| Average loans held for investment:(1) | | | |
| Commercial and multifamily real estate | **$ 17,454** | $ 15,514 | **13%** |
| Commercial and industrial | **19,949** | 17,038 | **17** |
| Total commercial lending | **37,403** | 32,552 | **15** |
| Small-ticket commercial real estate | **1,173** | 1,480 | **(21)** |
| Total commercial banking | **$ 38,576** | $ 34,032 | **13%** |
| Average yield on loans held for investment(2) | **3.91%** | 4.47% | **(56)bps** |
| Average deposits | **$ 30,335** | $ 27,569 | **10%** |
| Average deposit interest rate | **0.28%** | 0.37% | **(9)bps** |
| Core deposit intangible amortization | **$ 7** | $ 9 | **(22)%** |
| Net charge-offs | **7** | 16 | **(56)** |
| Net charge-off rate(3) | **0.07%** | 0.19% | **(12)bps** |
| Net charge-off rate (excluding acquired loans)(3) | **0.07** | 0.19 | **(12)** |

| **(Dollars in millions)** | **March 31, 2013** | **December 31, 2012** | **Change** |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment: | | | |
| Commercial and multifamily real estate | **$ 17,878** | $ 17,732 | **1%** |
| Commercial and industrial | **20,127** | 19,892 | **1** |
| Total commercial lending | **38,005** | 37,624 | **1** |
| Small-ticket commercial real estate | **1,145** | 1,196 | **(4)** |
| Total commercial banking | **$ 39,150** | $ 38,820 | **1%** |
| Nonperforming loans rate(5) | **0.71%** | 0.73% | **(2)bps** |
| Nonperforming loans rate (excluding acquired loans)(4) | **0.71** | 0.73 | **(2)** |
| Nonperforming asset rate(6) | **0.74** | 0.77 | **(3)** |
| Nonperforming asset rate (excluding acquired loans)(4) | **0.75** | 0.78 | **(3)** |

| | | | |
|---|---|---|---|
| Allowance for loan and lease losses | **$ 342** | $ 433 | **(21)%** |
| Allowance coverage ratio[7] | **0.87%** | 1.12% | **(25)bps** |
| Deposits | **$ 30,275** | $ 29,866 | **1%** |

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

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(1) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank acquisitions. The carrying value of commercial banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $323 million and $359 million as of March 31, 2013 and December 31, 2012, respectively. The average balance of commercial banking loans held for investment, excluding the carrying value of acquired loans, was $38.2 billion and $33.5 billion in the first quarter of 2013 and 2012, respectively.
(2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category.
(3) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
(4) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Summary of Selected Financial Data, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.
(5) Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. 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.
(6) Calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment, REO, and other foreclosed assets for the specified loan category.
(7) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

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

*Net Interest Income:* Net interest income increased by $23 million, or 5%, in the first quarter of 2013 to $454 million. 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 of $84 million in the first quarter of 2013 was relatively flat compared with non-interest income of $85 million in the first quarter of 2012, as lower revenues from investment banking activities were offset by increases in other customer fees.

*Provision for Credit Losses*: The Commercial Banking business recorded a negative provision for credit losses of $35 million in the first quarter of 2013, compared with a negative provision of $69 million in the first quarter of 2012. The negative provision for credit losses in the first quarter of 2013 reflected the continued improvement in the underlying credit performance of our commercial loan portfolio and the impact of a change in the process for estimating the combined allowance for loan losses and reserve for unfunded lending commitments for our commercial loan portfolio. This change in process resulted in a net increase in the combined allowance and reserve for unfunded lending commitments as of March 31, 2013. See Critical Accounting Policies and Estimates Allowance for Loan Losses and Reserve for Unfunded Lending Commitments Commercial Loans above for additional information on this change. The negative provision of $69 million in the first quarter of 2012 reflected improvement in underlying credit performance trends, which resulted in a release in the combined allowance and reserve of $85 million in the first quarter of 2012.

*Non-Interest Expense*: Non-interest expense of $258 million in the first quarter of 2013 remained relatively comparable to non-interest expense of $261 million in the first quarter of 2012.

*Loans Held for Investment*: Period-end loans held for investment in our Commercial Banking business increased by $330 million, or 1%, in the first quarter of 2013, to $39.2 billion as of March 31, 2013. The increase was driven by stronger loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

*Deposits*: Period-end deposits in the Commercial Banking business increased by $409 million, or 1%, to $30.3 billion as of March 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.

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*Charge-off Statistics*: The net charge-off rate decreased to 0.07% in the first quarter of 2013, from 0.19% in the first quarter of 2012. The nonperforming loan rate decreased to 0.71% as of March 31, 2013, from 0.73% as of December 31, 2012. The 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.

**Other Category**

Net loss from continuing operations recorded in Other was $128 million in the first quarter of 2013, compared with net income from continuing operations of $505 million in the first quarter of 2012. Other includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments. Accordingly, net 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 (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 acquisition and restructuring charges; provisions 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.

**Table 10: Other Results**

| | Three Months Ended March 31, | | |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **Change** |
| **Selected income statement data:** | | | |
| Net interest income (expense) | **$ (192)** | $ (297) | **(35)%** |
| Non-interest income | **(105)** | 662 | **(116)** |
| Total net revenue | **(297)** | 365 | **(181)** |
| Provision for credit losses | **2** | 10 | **(80)** |
| Non-interest expense | **32** | 32 | ** |
| Income from continuing operations before income taxes | **(331)** | 323 | **(202)** |
| Income tax benefit | **(203)** | (182) | **12** |
| Income from continuing operations, net of tax | **$ (128)** | $ 505 | **(125)%** |

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

The shift in the Other category to a net loss from continuing operations of $128 million in the first quarter of 2013, from net income from continuing operations of $505 million in the first quarter of 2012 was primarily due to the recognition of the bargain purchase gain of $594 million related to the ING Direct acquisition in 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 expected ING Direct acquisition.

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## CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE

Total assets of $300.2 billion as of March 31, 2013 decreased by $12.7 billion, or 4%, from $312.9 billion as of December 31, 2012. Total liabilities of $258.9 billion as of March 31, 2013, decreased by $13.5 billion, or 5%, from $272.4 billion as of December 31, 2012. Stockholders equity increased by $797 million in the first quarter of 2013, to $41.3 billion as of March 31, 2013. The increase in stockholders equity was primarily attributable to our net income of $1.1 billion in the first quarter of 2013.

Following is a discussion of material changes in the major components of our assets and liabilities in the first quarter of 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

Substantially all of our investment securities were classified as available for sale as of March 31, 2013 and December 31, 2012. Investment securities classified as available for sale are reported in our condensed consolidated balance sheets at fair value. Our investment securities portfolio, which had a fair value of $64.0 billion as of both March 31, 2013 and December 31, 2012, consisted primarily of the following: U.S. Treasury debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies; agency and non-agency mortgage-backed securities ( MBS ); other asset-backed securities and other investments. Based on fair value, investments in U.S. Treasury, agency securities and other securities explicitly or implicitly guaranteed by the U.S. government represented 78% of our total investment securities available for sale as of March 31, 2013, compared with 77% as of December 31, 2012.

We had investment securities designated as held to maturity reported at amortized cost of $2 million and $9 million as of March 31, 2013 and December 31, 2012, respectively. These investment securities are included in other assets in our condensed consolidated balance sheets.

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Table 11 presents the amortized cost and fair value for the major categories of our portfolio of investment securities available for sale as of March 31, 2013 and December 31, 2012.

**Table 11: Investment Securities Available for Sale**

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| **(Dollars in millions)** | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| U.S. Treasury debt obligations | **$ 1,043** | **$ 1,046** | $ 1,548 | $ 1,552 |
| U.S. agency debt obligations(1) | **301** | **301** | 301 | 302 |
| Corporate debt securities guaranteed by U.S. government agencies(2) | **1,117** | **1,128** | 1,003 | 1,012 |
| Residential mortgage-backed securities ( RMBS ): | | | | |
| Agency(3) | **40,413** | **40,749** | 39,408 | 40,002 |
| Non-agency | **3,499** | **3,868** | 3,607 | 3,871 |
| Total RMBS | **43,912** | **44,617** | 43,015 | 43,873 |
| Commercial mortgage-backed securities ( CMBS ): | | | | |
| Agency(3) | **6,322** | **6,393** | 6,045 | 6,144 |
| Non-agency | **1,686** | **1,730** | 1,425 | 1,485 |
| Total CMBS | **8,008** | **8,123** | 7,470 | 7,629 |
| Other asset-backed securities(4) | **7,298** | **7,357** | 8,393 | 8,458 |
| Other securities(5) | **1,369** | **1,396** | 1,120 | 1,153 |
| Total securities available for sale | **$ 63,048** | **$ 63,968** | $ 62,850 | $ 63,979 |

(1) Includes debt securities issued by Fannie Mae and Freddie Mac with an amortized cost of $300 million as of both March 31, 2013 and December 31, 2012, and a fair value of $300 million and $302 million as of March 31, 2013 and December 31, 2012, respectively.

(2) Consists of corporate debt securities guaranteed by U.S. government agencies, such as the Export-Import Bank of the United States.

(3) Includes MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae, each of which individually exceeded 10% of our stockholders equity as of the end of each reported period. Fannie Mae MBS had an amortized cost of $24.8 billion and $22.9 billion as of March 31, 2013 and December 31, 2012, respectively, and a fair value of $25.0 billion and $23.2 billion as of March 31, 2013 and December 31, 2012, respectively. Freddie Mac MBS had an amortized cost of $12.6 billion as of both March 31, 2013 and December 31, 2012, and a fair value of $12.7 billion and $12.9 billion as of March 31, 2013 and December 31, 2012, respectively. Ginnie Mae MBS had an amortized cost of $9.0 billion and $9.9 billion as of March 31, 2013 and December 31, 2012, respectively, and a fair value of $9.1 billion and $10.0 billion as of March 31, 2013 and December 31, 2012, respectively.

(4) The other asset-backed securities portfolio was collateralized by approximately 68% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 5% equipment loans and 2% of other assets as of March 31, 2013. In comparison, the distribution was approximately 64% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 5% equipment loans, 2% commercial paper and 4% of other assets as of December 31, 2012. Approximately 88% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of March 31, 2013, compared with 82% as of December 31, 2012.

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

Our portfolio of investment securities available for sale had a fair value of approximately $64.0 billion as of both March 31, 2013 and December 31, 2012. We had purchases during the quarter totaling approximately $6.0 billion, which were offset by pay downs and maturities of $4.9 billion, sales of $720 million and a decrease in fair value of $209 million.

Unrealized gains and losses on our portfolio of investment securities available for sale are recorded net of tax as a component of accumulated other comprehensive income ( AOCI ). We had gross unrealized gains of $1.2 billion and gross unrealized losses of $258 million on available-for sale securities as of March 31, 2013, compared with gross unrealized gains of $1.2 billion and gross unrealized losses of $120 million on available-for sale securities as of December 31, 2012. The increase in gross unrealized losses in the first quarter of 2013 was primarily driven by an increase in interest rates, which resulted in a decrease in fair value of certain securities. Of

the $258 million in gross unrealized losses as of March 31, 2013, $29 million related to securities that had been in a loss position for 12 months or longer.

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

***Credit Ratings***

Our portfolio of investment securities available for sale 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 March 31, 2013 and December 31, 2012, while approximately 6% were below investment grade as of both March 31, 2013 and December 31, 2012. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies Standard & Poor s Ratings Services ( S&P ), Moody s Investors Service ( Moody s ) and Fitch Ratings ( Fitch ).

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other asset-backed securities and other securities in our portfolio as of March 31, 2013 and December 31, 2012.

**Table 12: Non-Agency Investment Securities Credit Ratings**

| | March 31, 2013 | | | | December 31, 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 | **$ 3,499** | **%** | **5%** | **95%** | $ 3,607 | % | 5% | 95% |
| Non-agency CMBS | **1,686** | **98** | **2** | | 1,425 | 97 | 3 | |
| Other asset-backed securities | **7,298** | **88** | **11** | **1** | 8,393 | 82 | 17 | 1 |
| Other securities[1] | **1,369** | **46** | **44** | **10** | 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 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of March 31, 2013 and December 31, 2012.

**Table 13: Net Loans Held for Investment**

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Total Loans Held For Investment | Allowance | Net Loans Held For Investment | Total Loans Held For Investment | Allowance | Net Loans Held For Investment |
| Credit Card | **$ 78,397** | **$ 3,494** | **$ 74,903** | $ 91,755 | $ 3,979 | $ 87,776 |
| Consumer Banking | **73,613** | **743** | **72,870** | 75,127 | 711 | 74,416 |
| Commercial Banking | **39,150** | **342** | **38,808** | 38,820 | 433 | 38,387 |
| Other | **173** | **27** | **146** | 187 | 33 | 154 |

| | | | | | | |
|---|---|---|---|---|---|---|
| Total | **$ 191,333** | **$ 4,606** | **$ 186,727** | $ 205,889 | $ 5,156 | $ 200,733 |

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Period-end loans held for investment decreased by $14.6 billion, or 7%, in the first quarter of 2013, to $191.3 billion as of March 31, 2013. The decrease was due in part to the transfer of the loans in the Best Buy portfolio to the held for sale category. Excluding the transfer of the Best Buy portfolio of approximately $7 billion to held for sale, period-end loans held for investment decreased by approximately $7.6 billion, or 4%. This decrease reflected typical seasonally lower credit card purchase volumes and higher pay downs in the first quarter of the year, the continued expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition. The pay downs and run-off of card balances were partially offset by higher period-end auto 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 $6.4 billion as of March 31, 2013, from $201 million as of December 31, 2012. The increase was due to the transfer of the Best Buy loan portfolio to held for sale from held for investment in the first quarter of 2013. At the time of the transfer, the portfolio had loan balances of approximately $7 billion. The Best Buy portfolio had outstanding loan balances of $6.3 billion as of March 31, 2013.

**Customer Deposits**

Our customer deposits have become our largest source of funding for our operations and asset growth, providing a sizeable and consistent source of low-cost funds. Total customer deposits of $212.4 billion as of March 31, 2013 were relatively unchanged from $212.5 billion as of December 31, 2012. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in Liquidity Risk Profile.

**Securitized Debt Obligations**

Borrowings due to securitization investors decreased by $352 million to $11.0 billion as of March 31, 2013, from $11.4 billion as of December 31, 2012. This decrease was attributable to the scheduled maturities of debt within our credit card securitization trusts, which was partially offset by the February 1, 2013 execution of our first credit securitization transaction since 2009 in which Capital One Multi-Asset Execution Trust issued $750 million of 3-year, AAA-rated fixed-rate notes from our credit card securitization trust.

**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 junior subordinated debt and FHLB advances, but exclude securitized debt obligations, totaled $26.4 billion as of March 31, 2013, of which $12.2 billion represented short-term borrowings and $14.2 billion represented long-term debt. Other debt decreased $12.1 billion in the first quarter of 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.

During the first quarter, we exchanged $1.2 billion of outstanding 8.80% subordinated notes due 2019. The transaction involved offering current holders market value plus an exchange premium for these outstanding notes, which consideration was paid through a combination of $1.4 billion of new 3.375% subordinated notes due 2023 and cash of $209 million. The exchange was accounted for as a modification of debt.

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In addition, other debt decreased as a result of our redemption of $3.65 billion of our junior subordinated debt on January 2, 2013 in connection with our redemption of our outstanding trust preferred securities. This decrease was partially offset by the issuance of $850 million in new unsecured senior bank notes. The remaining decrease was due to the maturities of short-term FHLB advances of $12.4 billion, which was partially offset by $3.8 billion of new FHLB borrowings during the quarter. We provide additional information on our borrowings in Note 8 Deposits and Borrowings.

**Potential Mortgage Representation & Warranty Liabilities**

We acquired three subsidiaries that originated residential mortgage loans and sold them to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, which was acquired in February 2005; GreenPoint Mortgage Funding, Inc. ( GreenPoint ), which was acquired in December 2006 as part of the North Fork acquisition; and 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 condensed consolidated balance sheets as a component of other liabilities. The aggregate reserves for all three subsidiaries totaled $994 million as of March 31, 2013, compared with $899 million as of December 31, 2012, and $1.1 billion as of March 31, 2012.

The table below summarizes changes in our representation and warranty reserves in first quarter of 2013 and 2012, and for full year 2012.

**Table 14: Changes in Representation and Warranty Reserve**

| | Three Months Ended March 31, | | Full Year |
|---|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** | **2012** |
| Representation and warranty repurchase reserve, beginning of period[1] | **$ 899** | $ 943 | $ 943 |
| Provision for mortgage representation and warranty losses[2] | **97** | 169 | 349 |
| Net realized losses | **(2)** | (11) | (393) |
| Representation and warranty repurchase reserve, end of period[1] | **$ 994** | $ 1,101 | $ 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 condensed consolidated statements of income as a component of non-interest income was negative $10 million in the first quarter of 2013, compared with expense of $16 million in the first quarter of 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 $107 million and $153 million in the first quarter of 2013 and 2012, respectively.

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of March 31, 2013, is approximately $2.7 billion, unchanged from our estimate of $2.7 billion as of December 31, 2012.

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

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## 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 ( VIEs ). Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the 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 $2.8 billion and $401 million, respectively, as of March 31, 2013, and our maximum exposure to loss was $2.8 billion. 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 Office of the Comptroller of the Currency ( 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 banks currently are required to maintain a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a Tier 1 leverage capital ratio of at least 4% (3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating) in order to be considered adequately capitalized.

National banks also are subject to prompt corrective action capital regulations. Under prompt corrective action regulations, a bank is considered to be well capitalized if it maintains a Tier 1 risk-based capital ratio of at least 6% (200 basis points higher than the above minimum capital standard), a total risk-based capital ratio of at least 10% (200 basis points higher than the above minimum capital standard), a Tier 1 leverage capital ratio of at least 5% and is not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital reserve. A bank is considered to be adequately capitalized if it meets these minimum capital ratios and does not otherwise meet the well capitalized definition. Currently, prompt corrective action capital requirements do not apply to bank holding companies. 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. There is currently no mandated minimum or well capitalized standard for the Tier 1 common ratio; instead the risk-based capital rules state that voting common stockholders equity should be the dominant element within Tier 1 common capital. In addition, we disclose a non-GAAP TCE ratio in Summary of Selected Financial Data. While the

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Tier 1 common and TCE ratios are capital measures widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies, they may not be comparable to similarly titled measures reported by other companies. We provide information on the calculation of these ratios in Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I.

Table 15 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 March 31, 2013 and December 31, 2012.

**Table 15: Capital Ratios Under Basel I[(1)]**

| | March 31, 2013 | | | December 31, 2012 | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Capital Ratio | Minimum Capital Adequacy | Well Capitalized | Capital Ratio | Minimum Capital Adequacy | Well Capitalized |
| **Capital One Financial Corp:** | | | | | | |
| Tier 1 common[(2)] | **11.79%** | **N/A** | **N/A** | 10.96% | N/A | N/A |
| Tier 1 risk-based capital[(3)] | **12.18** | **4.00%** | **6.00%** | 11.34 | 4.00% | 6.00% |
| Total risk-based capital[(4)] | **14.43** | **8.00** | **10.00** | 13.56 | 8.00 | 10.00 |
| Tier 1 leverage[(5)] | **9.15** | **4.00** | **N/A** | 8.66 | 4.00 | N/A |
| **Capital One Bank (USA) N.A. ( COBNA ):** | | | | | | |
| Tier 1 risk-based capital[(3)] | **11.91%** | **4.00%** | **6.00%** | 11.32% | 4.00% | 6.00% |
| Total risk-based capital[(4)] | **15.43** | **8.00** | **10.00** | 14.74 | 8.00 | 10.00 |
| Tier 1 leverage[(5)] | **10.16** | **4.00** | **5.00** | 10.43 | 4.00 | 5.00 |
| **Capital One, N.A. ( CONA ):** | | | | | | |
| Tier 1 risk-based capital[(3)] | **13.45%** | **4.00%** | **6.00%** | 13.59% | 4.00% | 6.00% |
| Total risk-based capital[(4)] | **14.60** | **8.00** | **10.00** | 14.85 | 8.00 | 10.00 |
| Tier 1 leverage[(5)] | **9.01** | **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.
(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 calculated based on Tier 1 capital divided by quarterly average total assets, after certain adjustments.

Our Tier 1 common ratio, as calculated under Basel I, increased to 11.79% as of March 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 exceeded minimum capital requirements and would meet the well capitalized ratio levels specified under prompt corrective action for Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage under Federal Reserve capital standards for bank holding companies as of both March 31, 2013 and December 31, 2012. The Banks also exceeded minimum regulatory requirements under the OCC s applicable capital adequacy guidelines and were well capitalized under prompt corrective action requirements as of both March 31, 2013 and December 31, 2012.

***Recent Developments in Capital Requirements***

As of December 31, 2012, we had outstanding trust preferred securities with a combined aggregate principal amount of $3.65 billion that previously qualified as Tier 1 capital. On January 2, 2013, we redeemed all of our outstanding trust preferred securities, which generally carried a higher coupon cost, ranging from 3.36% to 10.25%, than other funding sources available to us. Pursuant to the Dodd-Frank Act, the Tier 1 capital treatment of trust preferred securities is to be phased out over a three year period starting on January 1, 2013.

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In January 2013 we submitted our capital plan to the Board of Governors of the Federal Reserve as part of the 2013 Comprehensive Capital Analysis and Review ( CCAR ). On March 14, 2013, we were informed by the Board of Governors of the Federal Reserve that it had completed its review under the CCAR process and that it did not object to our proposed capital distribution plans submitted pursuant to CCAR.

**Dividends**

On May 2, 2013, our Board of Directors approved an increase in our quarterly common stock dividend per share from $0.05 per share to $0.30 per share, payable May 23, 2013 to stockholders of record as of May 13, 2013. The Board of Directors also declared a quarterly dividend on the outstanding shares of our 6.00% fixed rate non-cumulative perpetual preferred stock, Series B (the Series B Preferred Stock ). Each outstanding share of the Series B Preferred Stock is represented by depository shares, each representing a 1/40th interest in a share of Series B Preferred Stock. The dividend of $15.00 per share (equivalent to $0.375 per outstanding depository share) will be paid on June 3, 2013 to stockholders of record at the close of business on May 17, 2013.

On January 31, 2013, our Board of Directors declared a quarterly common stock dividend of $0.05 per share, which was payable on February 22, 2013 to stockholders of record as of February 11, 2013, and a quarterly dividend on the outstanding Series B Preferred Stock. The dividend of $15.00 per share (equivalent to $0.375 per outstanding depository share) was paid on March 1, 2013 to stockholders of record at the close of business on February 14, 2013.

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. Funds available for dividend payments from COBNA and CONA were $4.3 billion and $791 million, respectively, as of March 31, 2013. There can be no assurance that we will declare and pay any dividends. For additional information on dividends, see Item 1. Business Supervision and Regulation Dividends, Stock Purchases and Transfer of Funds in our 2012 Form 10-K.

## RISK MANAGEMENT

**Overview**

Risk management is a critical part of our business model, as all financial institutions are exposed to a variety of risks that can significantly affect their financial performance. Our business activities expose us to eight major categories of risk: credit risk, liquidity risk, market risk, compliance risk, operational risk, legal risk, reputational risk and strategic risk. Our risk management framework is intended to identify, assess and mitigate risks that affect or have the potential to affect our business. We target financial returns that compensate us for the amount of risk that we take and avoid excessive risk-taking.

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We use a consistent risk management framework to manage risk. This framework applies at all levels, from the development of the Enterprise Risk Management Program itself to the tactical operations of the front-line business team. We are continuing to make changes to our risk management framework as we enhance our enterprise-wide compliance risk management programs, including further expanding the Three Lines of Defense model referenced under the Risk Management Principles set forth under MD&A Risk Management Risk Management Principles in our 2012 Form 10-K. Our risk management framework, which is built around governance, processes and people, currently consists of the following six key elements:

- Objective Setting
- Risk Assessment
- Control Activities
- Communication and Information
- Program Monitoring
- Organization and Culture

We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under MD&A Risk Management in our 2012 Form 10-K.

## CREDIT RISK PROFILE

Our loan portfolio accounts for the substantial majority of our credit risk exposure. 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 deposit overdrafts. We provide additional information on credit risk related to our investment securities portfolio under Consolidated Balance Sheet Analysis Investment Securities and credit risk related to derivative transactions in Note 9 Derivative Instruments and Hedging Activities.

### Loan Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial loans. For information on our lending policies and procedures, including our underwriting criteria, for our primary loan products, please refer to the MD&A Credit Risk Profile section in our 2012 Form 10-K.

Total loans that we manage consist of held-for-investment loans recorded on our balance sheet and loans held in our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets under restricted loans for securitization investors. Table 16 presents the composition of our total loan portfolio, by business segments, as of March 31, 2013 and December 31, 2012. Table 16 also displays acquired loans accounted for based on estimated cash flows expected to be collected, which consists of a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions. For additional information on the accounting for acquired loans, see MD&A Credit Risk Profile Loan Portfolio Composition Loans Acquired and Note 1 Summary of Significant Accounting Policies Loan in our 2012 Form 10-K. 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 $6.4 billion and $201 million as of March 31, 2013 and December 31, 2012, respectively.

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**Table 16: Loan Portfolio Composition(1)**

| (Dollars in millions) | March 31, 2013 Loans | March 31, 2013 Acquired Loans(2) | March 31, 2013 Total(4) | % of Total | December 31, 2012 Loans | December 31, 2012 Acquired Loans(2) | December 31, 2012 Total(4) | % of Total |
|---|---|---|---|---|---|---|---|---|
| **Credit Card business:** | | | | | | | | |
| Credit card loans: | | | | | | | | |
| Domestic credit card loans | $ 69,531 | $ 191 | $ 69,722 | 36.4% | $ 82,058 | $ 270 | $ 82,328 | 40.0% |
| International credit card loans | 8,036 | | 8,036 | 4.2 | 8,614 | | 8,614 | 4.2 |
| Total credit card loans | 77,567 | 191 | 77,758 | 40.6 | 90,672 | 270 | 90,942 | 44.2 |
| Installment loans: | | | | | | | | |
| Domestic installment loans | 626 | 13 | 639 | 0.3 | 795 | 18 | 813 | 0.4 |
| Total credit card | 78,193 | 204 | 78,397 | 41.0 | 91,467 | 288 | 91,755 | 44.6 |
| **Consumer Banking business:** | | | | | | | | |
| Auto | 27,927 | 13 | 27,940 | 14.6 | 27,106 | 17 | 27,123 | 13.2 |
| Home loan | 7,605 | 34,326 | 41,931 | 21.9 | 7,697 | 36,403 | 44,100 | 21.4 |
| Other retail | 3,704 | 38 | 3,742 | 2.0 | 3,870 | 34 | 3,904 | 1.9 |
| Total consumer banking | 39,236 | 34,377 | 73,613 | 38.5 | 38,673 | 36,454 | 75,127 | 36.5 |
| **Commercial Banking business:(3)** | | | | | | | | |
| Commercial and multifamily real estate | 17,769 | 109 | 17,878 | 9.3 | 17,605 | 127 | 17,732 | 8.6 |
| Commercial and industrial | 19,913 | 214 | 20,127 | 10.5 | 19,660 | 232 | 19,892 | 9.7 |
| Total commercial lending | 37,682 | 323 | 38,005 | 19.9 | 37,265 | 359 | 37,624 | 18.3 |
| Small-ticket commercial real estate | 1,145 | | 1,145 | 0.6 | 1,196 | | 1,196 | 0.5 |
| Total commercial banking | 38,827 | 323 | 39,150 | 20.5 | 38,461 | 359 | 38,820 | 18.8 |
| **Other:** | | | | | | | | |
| Other loans | 134 | 39 | 173 | 0.1 | 154 | 33 | 187 | 0.1 |
| Total loans held for investment | $ 156,390 | $ 34,943 | $ 191,333 | 100.0% | $ 168,755 | $ 37,134 | $ 205,889 | 100.0% |

(1) Excludes loans held for sale of $6.4 billion and $201 million as of March 31, 2013 and December 31, 2012, respectively.

(2) Consists of acquired loans accounted for based on estimated cash flows expected to be collected. See Note 1 Summary of Significant Accounting Policies in our 2012 Form 10-K and Note 4 Loans in this Report for additional information.

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

(4) We had a net unamortized premium on purchased loans of $397 million and $461 million as of March 31, 2013 and December 31, 2012, respectively.

**Credit Risk Measurement**

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

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

As noted above, our Credit Card business accounted for $78.4 billion, or 41%, of our total loan portfolio as of March 31, 2013, with Domestic Card accounting for $70.4 billion, or 37%, of our total loan portfolio as of March 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 less than 660 or no score, based on loan balances, as of March 31, 2013, relatively consistent with the proportion of the Domestic Card portfolio with credit scores below 660 or no score as of December 31, 2012. For loans related to the 2012 U.S. card acquisition and certain other partnerships, data is obtained on a lagged basis.

We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio. Loans acquired as part of the CCB, ING Direct and 2012 U.S. card acquisitions are included in the denominator used in calculating the credit quality metrics presented below. Because some of these loans are accounted for based on expected cash flows to be collected, which takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of 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.

See Note 4 Loans in this Report for additional credit quality information. See Note 1 Summary of Significant Accounting Policies in our 2012 Form 10-K for information on our accounting policies for delinquent, nonperforming loans, charge-offs and troubled debt restructurings ( TDRs ) for each of our loan categories.

***Delinquency Rates***

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer s billing statement. Table 17 compares 30+ day performing and total 30+ day delinquency rates, by loan category, as of March 31, 2013 and December 31, 2012. Table 17 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 in our 2012 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

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**Table 17: 30+ days Delinquencies**

| | March 31, 2013 | | | | | | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30+ Day Performing | | | 30+ Day Total | | | 30+ Day Performing | | | 30+ Day Total | | |
| (Dollars in millions) | Amount | Rate[(1)] | Adjusted Rate[(2)] | Amount | Rate[(1)] | Adjusted Rate[(2)] | Amount | Rate[(1)] | Adjusted Rate[(2)] | Amount | Rate[(1)] | Adjusted Rate[(2)] |
| **Credit Card business:** | | | | | | | | | | | | |
| Domestic credit card and installment loans | **$ 2,374** | **3.37%** | **3.38%** | **$ 2,374** | **3.37%** | **3.38%** | $ 3,001 | 3.61% | 3.62% | $ 3,001 | 3.61% | 3.62% |
| International credit card | **325** | **4.04** | **4.04** | **396** | **4.93** | **4.93** | 308 | 3.58 | 3.58 | 387 | 4.49 | 4.49 |
| Total credit card | **2,699** | **3.44** | **3.45** | **2,770** | **3.53** | **3.54** | 3,309 | 3.61 | 3.62 | 3,388 | 3.69 | 3.70 |
| **Consumer Banking business:** | | | | | | | | | | | | |
| Automobile | **1,560** | **5.58** | **5.59** | **1,655** | **5.92** | **5.93** | 1,900 | 7.00 | 7.01 | 2,049 | 7.55 | 7.56 |
| Home loan | **57** | **0.14** | **0.75** | **352** | **0.84** | **4.63** | 59 | 0.13 | 0.77 | 380 | 0.86 | 4.94 |
| Retail banking | **32** | **0.83** | **0.84** | **59** | **1.58** | **1.59** | 30 | 0.76 | 0.77 | 81 | 2.07 | 2.09 |
| Total consumer banking | **1,649** | **2.24** | **4.20** | **2,066** | **2.81** | **5.27** | 1,989 | 2.65 | 5.14 | 2,510 | 3.34 | 6.49 |
| **Commercial Banking business:** | | | | | | | | | | | | |
| Commercial and multifamily real estate | **107** | **0.60** | **0.60** | **207** | **1.16** | **1.17** | 140 | 0.79 | 0.79 | 248 | 1.40 | 1.41 |
| Commercial and industrial | **57** | **0.28** | **0.29** | **122** | **0.60** | **0.61** | 73 | 0.37 | 0.37 | 135 | 0.68 | 0.69 |
| Total commercial lending | **164** | **0.43** | **0.43** | **329** | **0.87** | **0.87** | 213 | 0.57 | 0.57 | 383 | 1.02 | 1.03 |
| Small-ticket commercial real estate | **18** | **1.56** | **1.56** | **42** | **3.68** | **3.68** | 33 | 2.74 | 2.74 | 43 | 3.60 | 3.60 |
| Total commercial banking | **182** | **0.46** | **0.47** | **371** | **0.95** | **0.96** | 246 | 0.63 | 0.64 | 426 | 1.10 | 1.11 |
| **Other:** | | | | | | | | | | | | |
| Other loans | **8** | **4.75** | **6.09** | **29** | **16.54** | **21.22** | 11 | 5.72 | 6.95 | 36 | 19.25 | 23.38 |
| Total | **$ 4,538** | **2.37%** | **2.90%** | **$ 5,236** | **2.74%** | **3.35%** | $ 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 expected to be collected from the denominator.

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Table 18 presents an aging of 30+ days delinquent loans included in the above table.

**Table 18: Aging and Geography of 30+ Days Delinquent Loans**

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (Dollars in millions) | Amount | % of Total Loans[1] | Amount | % of Total Loans[1] |
| Total loan portfolio | **$ 191,333** | **100.0%** | $ 205,889 | 100.0% |
| Delinquency status: | | | | |
| 30 59 days | **$ 2,241** | **1.17%** | $ 2,664 | 1.29% |
| 60 89 days | **1,079** | **0.57** | 1,440 | 0.70 |
| 90 + days | **1,916** | **1.00** | 2,256 | 1.10 |
| Total | **$ 5,236** | **2.74%** | $ 6,360 | 3.09% |
| Geographic region: | | | | |
| Domestic | **$ 4,840** | **2.53%** | $ 5,973 | 2.90% |
| International | **396** | **0.21** | 387 | 0.19 |
| Total | **$ 5,236** | **2.74%** | $ 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.

Table 19 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of March 31, 2013 and December 31, 2012. 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 19: 90+ Days Delinquent Loans Accruing Interest**

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (Dollars in millions) | Amount | % of Total Loans | Amount | % of Total Loans |
| **Loan category:[1]** | | | | |
| Credit card | **$ 1,275** | **1.63%** | $ 1,510 | 1.65% |
| Consumer | **1** | **0.00** | 1 | 0.00 |
| Commercial | **33** | **0.08** | 16 | 0.04 |
| Total | **$ 1,309** | **0.68%** | $ 1,527 | 0.74% |
| **Geographic region:[2]** | | | | |
| Domestic | **$ 1,205** | **0.63%** | $ 1,427 | 0.69% |
| International | **104** | **0.05** | 100 | 0.05 |
| Total | **$ 1,309** | **0.68%** | $ 1,527 | 0.74% |

(1) Delinquency rates are calculated by loan category by dividing 90+ day delinquent loans accruing interest 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 dividing loans in each geographic region as of the end of the period by the total loan portfolio.

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*Nonperforming Assets*

Nonperforming assets consist of nonperforming loans and foreclosed property and repossessed assets. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty. We separately track and report acquired loans accounted for based on expected cash flows and disclose our delinquency and nonperforming loan rates with and without acquired loans. See Note 1 Summary of Significant Accounting Policies Loans in our 2012 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

Table 20 presents comparative information on nonperforming loans, by loan category, as of March 31, 2013 and December 31, 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 20: Nonperforming Loans and Other Nonperforming Assets[1][2]**

| | March 31, 2013[3] | | December 31, 2012 | |
|---|---|---|---|---|
| **(Dollars in millions)** | **Amount** | **% of Total HFI Loans** | **Amount** | **% of Total HFI Loans** |
| **Nonperforming loans held for investment:** | | | | |
| Credit card business: | | | | |
| International credit card | **$ 90** | **1.13%** | $ 100 | 1.16% |
| Total credit card | **90** | **0.12** | 100 | 0.11 |
| Consumer Banking business: | | | | |
| Auto | **95** | **0.34** | 149 | 0.55 |
| Home loan | **403** | **0.96** | 422 | 0.96 |
| Retail banking | **46** | **1.23** | 71 | 1.82 |
| Total consumer banking | **544** | **0.74** | 642 | 0.85 |
| Commercial Banking business: | | | | |
| Commercial and multifamily real estate | **127** | **0.71** | 137 | 0.77 |
| Commercial and industrial | **122** | **0.60** | 133 | 0.67 |
| Total commercial lending | **249** | **0.66** | 270 | 0.72 |
| Small-ticket commercial real estate | **28** | **2.41** | 12 | 0.97 |
| Total commercial banking | **277** | **0.71** | 282 | 0.73 |
| Other: | | | | |
| Other loans | **25** | **14.42** | 30 | 15.85 |
| Total nonperforming loans held for investment[4] | **$ 936** | **0.49%** | $ 1,054 | 0.51% |
| **Other nonperforming assets:** | | | | |
| Foreclosed property[5] | **$ 198** | **0.10%** | $ 204 | 0.10% |
| Repossessed assets | **18** | **0.01** | 22 | 0.01 |
| Total other nonperforming assets | **216** | **0.11** | 226 | 0.11 |

| | | | | |
|---|---|---|---|---|
| Total nonperforming assets | **$ 1,152** | **0.60%** | $ 1,280 | 0.62% |

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

(2) The nonperforming loan ratio, excluding acquired loans from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, commercial and industrial, total commercial banking and total nonperforming loans held for investment was 5.30%, 1.24%, 1.39%, 0.72%, 0.61%, 0.71% and 0.60%, respectively, as of March 31, 2013, compared with 5.48%, 1.83%, 1.66%, 0.78%, 0.68%, 0.73% and 0.62%, respectively, as of December 31, 2012. The nonperforming asset ratio, excluding acquired loans from the denominator, was 0.74% and 0.76% as of March 31, 2013 and December 31, 2012, respectively.

(3) We recognized interest income for loans classified as nonperforming of $10 million and $12 million in the first quarter of 2013 and 2012, respectively. Interest income foregone related to nonperforming loans was $22 million in the first quarter of both 2013 and 2012. 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 credit card loans from the denominator, was 0.83% and 0.92% as of March 31, 2013 and December 31, 2012, respectively.

(5) Includes foreclosed properties related to acquired loans of $157 million and $167 million as of March 31, 2013 and December 31, 2012, respectively.

***Net Charge-Offs***

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Costs incurred to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off time frame for loans varies based on the loan type. See Note 1 Summary of Significant Accounting Policies Loans in our 2012 Form 10-K for information on our charge-off policy for each of our loan categories.

Table 21 presents our net charge-off amounts and rates, by business segment, in the first quarter of 2013 and 2012. We provide information on charge-off amounts by loan category below in Table 23.

**Table 21: Net Charge-Offs**

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| (Dollars in millions) | Amount | Rate[1] | Adjusted Rate[2] | Amount | Rate[1] | Adjusted Rate[2] |
| Credit card | **$ 922** | **4.45%** | **4.46%** | $ 645 | 4.14% | 4.14% |
| Consumer banking | **143** | **0.78** | **1.47** | 109 | 0.77 | 1.29 |
| Commercial banking | **7** | **0.07** | **0.07** | 16 | 0.19 | 0.19 |
| Other | **7** | **14.53** | **18.47** | 10 | 23.30 | 23.30 |
| Total | **$ 1,079** | **2.20%** | **2.69%** | $ 780 | 2.04% | 2.40% |
| Average loans held for investment | **$ 195,997** | | | $ 152,900 | | |
| Average loans held for investment (excluding acquired loans) | **160,291** | | | 129,833 | | |

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

(2) Calculated by excluding acquired loans accounted for based on estimated cash flows expected to be collected from the denominator.

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*Loan Modifications and Restructurings*

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

Table 22 presents the loan balances as of March 31, 2013 and December 31, 2012 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 22 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 22: Loan Modifications and Restructurings**

| (Dollars in millions) | March 31, 2013 Amount | March 31, 2013 % of Total Modifications | December 31, 2012 Amount | December 31, 2012 % of Total Modifications |
|---|---|---|---|---|
| **Modified and restructured loans:** | | | | |
| Credit card[1] | **$ 839** | **47.4%** | $ 873 | 48.7% |
| Auto | **326** | **18.5** | 328 | 18.3 |
| Home loan | **168** | **9.5** | 145 | 8.1 |
| Retail banking | **59** | **3.3** | 65 | 3.6 |
| Commercial banking | **377** | **21.3** | 383 | 21.3 |
| Total | **$ 1,769** | **100%** | $ 1,794 | 100.0% |
| **Status of modified and restructured loans:** | | | | |
| Performing | **$ 1,344** | **76.0%** | $ 1,419 | 79.1% |
| Nonperforming | **425** | **24.0** | 375 | 20.9 |
| Total | **$ 1,769** | **100%** | $ 1,794 | 100.0% |

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

The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve a reduction and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. In all cases, we cancel the customer s available line of credit on the credit card. If the cardholder 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.

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The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction. The vast majority of modified 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. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance commercial nonperforming loans and TDR loans. We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Loans held for sale are also not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude acquired loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred, as discussed above under Summary of Selected Financial Data.

Impaired loans, including TDRs, totaled $2.0 billion as of both March 31, 2013 and December 31, 2012. TDRs accounted for $1.8 billion of impaired loans as of both March 31, 2013 and December 31, 2012. 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 do not maintain an allowance for held-for-sale loans or acquired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. See Note 1 Summary of Significant Accounting Policies Allowance for Loan and Lease Losses in our 2012 Form 10-K for information on the methodology for determining our allowance for loan and lease losses for each of our loan categories.

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Table 23 displays changes in our allowance for loan and lease losses in the first quarter of 2013 and 2012, 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 23: Allowance for Loan and Lease Losses Activity**

| (Dollars in millions) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| Balance at beginning of period, as reported | **$ 5,156** | $ 4,250 |
| Provision for credit losses[1] [2] | **835** | 579 |
| Charge-offs: | | |
| **Credit Card business:[3]** | | |
| Domestic credit card and installment loans | **(1,119)** | (788) |
| International credit card | **(143)** | (167) |
| Total credit card | **(1,262)** | (955) |
| **Consumer Banking business:** | | |
| Auto | **(182)** | (140) |
| Home loan | **(7)** | (24) |
| Retail banking | **(25)** | (20) |
| Total consumer banking | **(214)** | (184) |
| **Commercial Banking business:** | | |
| Commercial and multifamily real estate | **(2)** | (9) |
| Commercial and industrial | **(4)** | (11) |
| Total commercial lending | **(6)** | (20) |
| Small-ticket commercial real estate | **(6)** | (16) |
| Total commercial banking | **(12)** | (36) |
| Other loans | **(8)** | (11) |
| Total charge-offs | **(1,496)** | (1,186) |
| Recoveries: | | |
| **Credit Card business:** | | |
| Domestic credit card and installment loans | **292** | 257 |
| International credit card | **48** | 52 |
| Total credit card | **340** | 309 |
| **Consumer Banking business:** | | |
| Auto | **60** | 61 |
| Home loan | **3** | 9 |
| Retail banking | **8** | 6 |
| Total consumer banking | **71** | 76 |
| **Commercial Banking business:** | | |
| Commercial and multifamily real estate | **1** | 5 |
| Commercial and industrial | **2** | 14 |

| | | |
|---|---|---|
| Total commercial lending | **3** | 19 |
| Small-ticket commercial real estate | **2** | 1 |
| Total commercial banking | **5** | 20 |
| Other loans | **1** | 1 |
| Total recoveries | **417** | 406 |
| Net charge-offs | **(1,079)** | (780) |
| Impact of loan transfers, sales and other changes[2] | **(306)** | 11 |
| Balance at end of period | **$ 4,606** | $ 4,060 |
| Allowance for loan and lease losses as a percentage of loans held for investment | **2.41%** | 2.34% |

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(1) The total provision for credit losses reported in our consolidated statements of income of $885 million and $573 million in the first quarter of 2013 and 2012, 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 $50 million in the first quarter of 2013 and the negative provision for unfunded lending commitments of $6 million in the first quarter of 2012.

(2) Consists of a reduction in the allowance of $289 million, which was attributable to the transfer of the Best Buy loan portfolio to held for sale from held for investment in the first quarter of 2013, and a foreign translation gain of $17 million as of March 31, 2013. Consists of a foreign translation loss of $11 million as of March 31, 2012.

Table 24 presents an allocation of our allowance for loan and lease losses by loan category as of March 31, 2013 and December 31, 2012.

**Table 24: Allocation of the Allowance for Loan and Lease Losses**

| | March 31, 2013 | | December 31, 2012 | |
|---|---|---|---|---|
| (Dollars in millions) | Amount | % of Total HFI Loans[1] | Amount | % of Total HFI Loans[1] |
| **Credit Card business:** | | | | |
| Domestic credit card and installment loans | **$ 3,057** | **4.34%** | $ 3,526 | 4.24% |
| International credit card | **437** | **5.44** | 453 | 5.26 |
| Total credit card | **3,494** | **4.46** | 3,979 | 4.34 |
| **Consumer Banking business:** | | | | |
| Auto | **528** | **1.89** | 486 | 1.79 |
| Home loan | **103** | **0.25** | 113 | 0.26 |
| Retail banking | **112** | **2.99** | 112 | 2.87 |
| Total consumer banking | **743** | **1.01** | 711 | 0.95 |
| **Commercial Banking business:** | | | | |
| Commercial and multifamily real estate | **140** | **0.78** | 239 | 1.35 |
| Commercial and industrial | **145** | **0.72** | 116 | 0.58 |
| Total commercial lending | **285** | **0.75** | 355 | 0.94 |
| Small-ticket commercial real estate | **57** | **4.98** | 78 | 6.52 |
| Total commercial banking | **342** | **0.87** | 433 | 1.12 |
| Other loans | **27** | **15.61** | 33 | 17.65 |
| Total | **$ 4,606** | **2.41%** | $ 5,156 | 2.50% |
| **Total allowance coverage ratios:** | | | | |
| Period-end loans held for investment | **$ 191,333** | **2.41%** | $ 205,889 | 2.50% |
| Period-end loans held for investment (excluding acquired loans) | **156,390** | **2.95** | 168,755 | 3.02 |
| Nonperforming loans[2] | **936** | **492.09** | 1,054 | 489.18 |
| **Allowance coverage ratios by loan category:** | | | | |
| Credit card (30 + day delinquent loans) | **$ 2,770** | **126.14%** | $ 3,388 | 117.44% |
| Consumer banking (30 + day delinquent loans) | **2,066** | **35.96** | 2,510 | 28.33 |
| Commercial banking (nonperforming loans) | **277** | **123.47** | 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) As permitted by regulatory guidance issued by the FFIEC, our policy is generally not to classify domestic credit card loans as nonperforming. We generally accrue interest on domestic credit card loans through the date of charge-off, which is typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 118.80% as of March 31, 2013 and 111.67% as of December 31, 2012.

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Our allowance decreased by $550 million to $4.6 billion as of March 31, 2013, from $5.2 billion as of December 31, 2012. The reduction reflected an allowance reversal of $289 million related to the Best Buy loan portfolio transferred to held for sale and an allowance release of $261 million. The allowance coverage ratio declined to 2.41% as of March 31, 2013, from 2.50% as of December 31, 2012, due in part to an improved credit outlook.

## LIQUIDITY RISK PROFILE

We have established liquidity guidelines that are intended to ensure that we have sufficient asset-based liquidity to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. Our guidelines include maintaining an adequate liquidity reserve to cover our potential funding requirements and diversified funding sources to avoid over-dependence on volatile, less reliable funding markets. Our liquidity reserves consist of cash and cash equivalents and unencumbered investment securities available for sale.

Table 25 below presents the composition of our liquidity reserves as of March 31, 2013 and December 31, 2012.

**Table 25: Liquidity Reserves**

| (Dollars in millions) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| Cash and cash equivalents | **$ 6,746** | $ 11,058 |
| Investment securities available for sale[1] | **63,968** | 63,979 |
| Less: Pledged investment securities available for sale | **(11,515)** | (13,811) |
| Unencumbered investment securities available for sale | **52,453** | 50,168 |
| Total liquidity reserves | **$ 59,199** | $ 61,226 |

[1] The weighted average life of our available-for-sale securities was approximately 5.2 and 4.3 years as of March 31, 2013 and December 31, 2012, respectively.

See MD&A Risk Management in our 2012 Form 10-K for additional information on our management of liquidity risk.

### Funding

Our funding objective is to establish an appropriate maturity profile using a cost-effective mix of both short-term and long-term funds. We use a variety of funding sources, including 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.

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*Deposits*

Our deposits provide a stable and relatively low cost of funds and are our largest source of funding. Table 26 provides a comparison of the composition of our deposits, average balances, interest expense and average deposit rates for the first quarter of 2013 and full year 2012.

**Table 26: Deposit Composition and Average Deposit Rates**

| | Three Months Ended March 31, 2013 | | | | |
|---|---|---|---|---|---|
| **(Dollars in millions)** | **Period End Balance** | **Average Balance** | **Interest Expense** | **% of Average Deposits** | **Average Deposit Rate** |
| Non-interest bearing | **$ 21,317** | **$ 20,943** | **N/A** | **9.9%** | **N/A** |
| Negotiable order of withdrawal (NOW) accounts | **43,290** | **42,213** | **$ 64** | **20.0** | **0.61%** |
| Money market deposit accounts | **104,415** | **104,085** | **163** | **49.2** | **0.63** |
| Savings accounts | **27,765** | **27,902** | **16** | **13.2** | **0.23** |
| Other consumer time deposits | **10,053** | **10,658** | **50** | **5.0** | **1.88** |
| Total core deposits | **206,840** | **205,801** | **293** | **97.3** | **0.57** |
| Public fund certificates of deposit of $100,000 or more | **48** | **51** | | | |
| Certificates of deposit of $100,000 or more | **4,275** | **4,344** | **32** | **2.1** | **2.95** |
| Foreign time deposits | **1,247** | **1,359** | **1** | **0.6** | **0.29** |
| Total customer deposits | **$ 212,410** | **$ 211,555** | **$ 326** | **100.0%** | **0.62%** |

| | Twelve Months Ended 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 |
| Other consumer time deposits | 11,028 | 12,762 | 258 | 6.4 | 2.02 |
| Total core deposits | 206,911 | 196,873 | 1,255 | 97.0 | 0.64 |
| Public fund certificates of deposit of $100,000 or more | 51 | 70 | | | |
| Certificates of deposit of $100,000 or more | 4,444 | 4,806 | 144 | 2.4 | 3.00 |
| 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% |

Total customer deposits of $212.4 billion as of March 31, 2013 were relatively unchanged from $212.5 billion as of December 31, 2012. 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 other consumer time deposits in the above table. Brokered deposits totaled $9.3 billion, or 4% of total deposits, as of March 31, 2013. Brokered deposits totaled $10.0 billion, or 5% of total deposits, as of December 31, 2012.

The Federal Deposit Insurance Corporation Improvement Act of 1991 limits the use of brokered deposits to well-capitalized insured depository institutions and, with a waiver from the Federal Deposit Insurance Corporation, to adequately capitalized institutions. COBNA and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of both March 31, 2013 and December 31, 2012, and therefore permitted to maintain brokered deposits. We expect to replace maturing brokered deposits with new brokered deposits or other sources of funding, which may include branch or direct deposits.

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*Other Funding Sources*

We also access the capital markets to meet our funding needs through the use of federal funds purchased and securities loaned or sold under agreements to repurchase, the issuance of senior and subordinated notes and loan securitization transactions. We regularly participate in the federal funds market daily 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. We expect monthly fluctuations in our borrowings, as borrowing amounts are highly dependent on the cash positions of our counterparties. In addition, we may utilize short-term as well as long-term FHLB advances for our funding needs. FHLB advances are secured by certain of our loan portfolios and investment securities.

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 junior subordinated debt and FHLB advances, but exclude securitized debt obligations, totaled $26.4 billion as of March 31, 2013, of which $12.2 billion represented short-term borrowings and $14.2 billion represented long-term debt. Other debt decreased $12.1 billion in the first quarter of 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.

In the first quarter of 2013, we exchanged $1.2 billion of outstanding 8.80% subordinated notes due 2019. The transaction involved offering current holders market value plus an exchange premium for these outstanding notes, which consideration was paid through a combination of $1.4 billion of new 3.375% subordinated notes due in 2023 and $209 million in cash. The exchange was accounted for as a modification of debt.

In addition, other debt decreased as a result of our redemption of $3.65 billion of our junior subordinated debt on January 2, 2013 in connection with our redemption of our outstanding trust preferred securities. This decrease was partially offset by the issuance of $850 million in new unsecured senior bank notes. The remaining decrease was due to the maturities of short-term FHLB advances of $12.4 billion, which was partially offset by $3.8 billion of new FHLB borrowings during the quarter.

Table 27 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 27: Short-Term Borrowings**

| | Three Months Ended March 31, | | | | | |
|---|---|---|---|---|---|---|
| | 2013 | | | 2012 | | |
| **(Dollars in millions)** | **Outstanding Amount** | **Interest Rate** | **Maximum Month-End Outstanding Amount** | **Outstanding Amount** | **Interest Rate** | **Maximum Month-End Outstanding Amount** |
| **Average during the period:** | | | | | | |
| Federal funds purchased and resale agreements | **$ 1,109** | **0.18%** | **$ 1,797** | $ 1,335 | 0.13% | $ 1,228 |
| FHLB advances | **15,647** | **0.27** | **16,600** | 3,508 | 0.16 | 4,500 |
| Total short-term borrowings | **$ 16,756** | **0.26%** | | $ 4,843 | 0.15% | |

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| (Dollars in millions) | March 31, 2013 Amount | March 31, 2013 Weighted Average Interest Rate | December 31, 2012 Amount | December 31, 2012 Weighted Average Interest Rate |
|---|---|---|---|---|
| **Period-end balance:** | | | | |
| Federal funds purchased and resale agreements | **$ 855** | **0.31%** | $ 1,248 | 0.28% |
| FHLB advances | **11,301** | **0.27** | 19,900 | 0.27 |
| Total short-term borrowings | **$ 12,156** | **0.27%** | $ 21,148 | 0.27% |

Table 28 displays the maturity profile, based on contractual maturities, of our securitized debt obligations and other debt as of March 31, 2013.

**Table 28: Contractual Maturity Profile of Outstanding Debt**

| | March 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 | **$ 855** | **$** | **$** | **$** | **$** | **$** | **$ 855** |
| FHLB advances | **11,301** | | | | | | **11,301** |
| Total short-term borrowings | **12,156** | | | | | | **12,156** |
| **Long-term debt:** | | | | | | | |
| Securitized debt obligations | **3,028** | **1,598** | **1,657** | **2,678** | **1,837** | **248** | **11,046** |
| Senior and subordinated notes: | | | | | | | |
| Unsecured senior debt | **2,588** | **1,661** | **2,000** | **252** | **2,126** | **1,298** | **9,925** |
| Unsecured subordinated debt | **606** | | | **1,162** | | **1,562** | **3,330** |
| Total senior and subordinated notes | **3,194** | **1,661** | **2,000** | **1,414** | **2,126** | **2,860** | **13,255** |
| Other long-term borrowings: | | | | | | | |
| FHLB advances | **32** | **931** | **18** | **20** | **25** | **9** | **1,035** |
| Total long-term debt[1] | **6,254** | **4,190** | **3,675** | **4,112** | **3,988** | **3,117** | **25,336** |
| Total short-term borrowings and long-term debt | **$ 18,410** | **$ 4,190** | **$ 3,675** | **$ 4,112** | **$ 3,988** | **$ 3,117** | **$ 37,492** |
| Percentage of total | **49%** | **11%** | **10%** | **11%** | **11%** | **8%** | **100%** |

(1) Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of $254 million as of March 31, 2013.

We provide additional information on our short-term borrowings and long-term debt in Note 8 Deposits and Borrowings.

**Borrowing Capacity**

Under our shelf registration filed with the U.S. Securities and Exchange Commission ( SEC ) 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 will expire three years from the filing date.

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In addition to issuance capacity under the shelf registration statement, we also have access to FHLB Advances with a maximum borrowing capacity of $39.6 billion as of March 31, 2013. This borrowing capacity was secured by posting $32.0 billion of loans and $7.6 billion of securities as collateral. We had $12.6 billion outstanding as of March 31, 2013, and $27.0 billion still available to us to borrow against under this program. This funding source is non-revolving and funding availability is subject to market conditions. Our FHLB membership and borrowings are secured by our investment in FHLB stock, which totaled $819 million and $1.3 billion as of March 31, 2013 and December 31, 2012, respectively.

**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 29 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of March 31, 2013 and December 31, 2012.

**Table 29: Senior Unsecured Debt Credit Ratings**

| | March 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 April 30, 2013, Moody s and Fitch had us on a stable outlook, while S&P had us on negative outlook.

## MARKET RISK PROFILE

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

**Primary Market Risk Exposures**

Our primary sources of market risk include interest rate risk and 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. We are exposed to changes in foreign exchange rates, which may impact the earnings of our foreign operations. We monitor and manage our material foreign currency denominated

transactions and exposures through the use of derivatives to limit our earnings sensitivity exposure to foreign exchange risk. The estimated reduction in our 12-month earnings due to adverse foreign exchange rate movements corresponding to a 95% probability was less than 2.0% as of March 31, 2013 and December 31, 2012. The precision of this estimate is limited due to the inherent uncertainty of the underlying forecast assumptions.

**Market Risk Management**

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, changing the maturity and re-pricing characteristics of our various assets and liabilities. 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 our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $59.6 billion as of March 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 Asset/Liability Management Committee and approved by the Finance Committee of the Board. Our objective is to manage our asset/liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analyses to measure, assess and manage the impact of changes in interest rates and foreign exchange rates on our earnings and the economic value of equity.

We consider the impact on both earnings and economic value of equity in measuring and managing our interest rate risk. In December 2008, the federal funds rate was lowered to near zero and it has remained in a target range of zero to 0.25%. In 2008, we temporarily revised our customary declining interest rate scenario of 200 basis points to a 50 basis point decrease, except in scenarios where a 50 basis point decline would result in a rate less than 0% (in which case we assume a rate scenario of 0%), in response to the low rate environment because a scenario where interest rates would decline by 200 basis points was not plausible. Below we discuss the assumptions used in calculating each of these measures.

***Earnings Sensitivity***

Our earnings 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 adjusted to include 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. We recently revised two assumptions used to calculate our earnings sensitivity measures. First, in addition to our existing assets and liabilities, we now 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. We previously based our earnings sensitivity measure on the anticipated run-off of our existing assets and liabilities. Second, we revised the interest rate scenario used to measure and evaluate the impact on the baseline forecast to assess our earnings sensitivity. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume an instantaneous plus or minus 200 basis point shock, with the lower rate scenario limited to zero as described above. We previously assumed a hypothetical gradual increase or decrease of 200 basis points relative to implied forward rates over the next twelve months with the lower rate scenario limited as discussed above.

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***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 30 shows the estimated percentage impact on our projected base-line adjusted net interest income and economic value of equity, calculated under the hypothetical interest rate scenarios described above, as of March 31, 2013 and December 31, 2012. We will continue to factor into our 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, for our sensitivity measures.

**Table 30: Interest Rate Sensitivity Analysis**

| **(Dollars in millions)** | **March 31, 2013** | **December 31, 2012** |
|---|---|---|
| Impact on projected base-line adjusted net interest income: | | |
| +200 basis points | **2.3%** | 2.7% |
| 50 basis points | **(1.6)** | (1.7) |
| Impact on economic value of equity: | | |
| +200 basis points | **(3.7)** | (3.1) |
| 50 basis points | **(0.6)** | (1.4) |

Our interest rate sensitivity measures reflect that we became less asset sensitive between December 31, 2012 and March 31, 2013. Our projected net interest income and economic value of equity sensitivity measures were within our prescribed asset/liability policy limits as of March 31, 2013 and December 31, 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 deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analyses contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet and, 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 analyses.

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## SUPERVISION AND REGULATION

In January 2013, the Consumer Finance Protection Bureau ( CFPB ) 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, including the Ability-to-Repay and Qualified Mortgage Standards Under 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.

We provide information on our supervision and regulation in our 2012 Form 10-K under Part I Item 1. Business Supervision and Regulation.

## FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, expenses, capital measures, returns, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; the projected impact and benefits of the ING Direct and 2012 U.S. card acquisitions (collectively, the Acquisitions ) and the sale of the Best Buy loan portfolio (the Sale Transaction ); 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 and 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 Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder, 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;

the possibility that conditions to the Sale Transaction are not received or satisfied on a timely basis or at all;

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the possibility that modifications to the terms of the Sale Transaction may be required in order to obtain or satisfy such conditions;

changes in the anticipated timing for closing the Sale Transaction;

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

the inability to sustain revenue and earnings growth;

increases or decreases in interest rates;

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

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

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

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

the amount and rate of deposit growth;

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

any significant disruption in our operations or technology platform;

our ability to maintain a compliance infrastructure suitable for the nature of our business;

our ability to control costs;

the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;

our ability to execute on our strategic and operational plans;

- any significant disruption of, or loss of public confidence in, the United States Mail service affecting our response rates and consumer payments;

- any significant disruption of, or loss of public confidence in, the internet affecting the ability of our customers to access their accounts and conduct banking transactions;

- our ability to recruit and retain experienced personnel to assist in the management and operations of new products and services;

- changes in the labor and employment markets;

- fraud or misconduct by our customers, employees or business partners;

- competition from providers of products and services that compete with our businesses; and

- other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under "Part II—Item 1A. Risk Factors" in this Report and in "Part I—Item 1A. Risk Factors" in our 2012 Form 10-K.

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**SUPPLEMENTAL TABLES**

**Table A Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I**

| (Dollars in millions) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Stockholders equity to non-GAAP tangible common equity** | | |
| Total stockholders equity | **$ 41,296** | $ 40,499 |
| Less: Goodwill and other intangible assets[(1)] | **(15,992)** | (16,224) |
| Noncumulative perpetual preferred stock | **(853)** | (853) |
| Tangible common equity | **$ 24,451** | $ 23,422 |
| **Total assets to tangible assets** | | |
| Total assets | **$ 300,163** | $ 312,918 |
| Less: Assets from discontinued operations | **(309)** | (309) |
| Total assets from continuing operations | **299,854** | 312,609 |
| Less: Goodwill and other intangible assets[(1)] | **(15,992)** | (16,224) |
| Tangible assets | **$ 283,862** | $ 296,385 |
| **Non-GAAP TCE ratio** | | |
| Tangible common equity | **$ 24,451** | $ 23,422 |
| Tangible assets | **283,862** | 296,385 |
| TCE ratio[(3)] | **8.61%** | 7.90% |
| **Regulatory capital ratios** | | |
| Total stockholders equity | **$ 41,296** | $ 40,499 |
| Less: Net unrealized gains on investment securities available for sale recorded in AOCI[(4)] | **(583)** | (712) |
| Net losses on cash flow hedges recorded in AOCI[(4)] | **15** | 2 |
| Disallowed goodwill and other intangible assets[(5)] | **(14,361)** | (14,428) |
| Disallowed deferred tax assets | | |
| Noncumulative perpetual preferred stock[(2)] | **(853)** | (853) |
| Other | **(4)** | (12) |
| Tier 1 common capital | **25,510** | 24,496 |
| Plus: Noncumulative perpetual preferred stock[(2)] | **853** | 853 |
| Tier 1 restricted core capital items[(6)] | **1** | 2 |
| Tier 1 capital | **26,364** | 25,351 |
| Plus: Long-term debt qualifying as Tier 2 capital | **2,121** | 2,119 |
| Qualifying allowance for loan and lease losses | **2,738** | 2,830 |
| Other Tier 2 components | **11** | 13 |
| Tier 2 capital | **4,870** | 4,962 |

| | | |
|---|---|---|
| Total risk-based capital[7] | **$ 31,234** | $ 30,313 |
| Risk-weighted assets[8] | **$ 216,458** | $ 223,472 |
| Tier 1 common ratio[9] | **11.79%** | 10.96% |
| Tier 1 risk-based capital ratio[10] | **12.18** | 11.34 |
| Total risk-based capital ratio[11] | **14.43** | 13.56 |

(1) Includes impact from related deferred taxes.
(2) Noncumulative perpetual preferred stock qualifies as Tier 1 capital; however, it does not qualify as Tier 1 common capital.
(3) Calculated based on tangible common equity divided by tangible assets.
(4) Amounts presented are net of tax.
(5) Disallowed goodwill and other intangible assets are net of related deferred tax liability.
(6) Consists primarily of trust preferred securities.
(7) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.
(8) Calculated based on prescribed regulatory guidelines.
(9) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common capital divided by risk-weighted assets.
(10) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
(11) Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.

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**Item 1. Financial Information and Supplementary Data**

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**CAPITAL ONE FINANCIAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

| (Dollars in millions, except per share-related data) | Three Months Ended March 31, 2013 | 2012 |
|---|---|---|
| **Interest income:** | | |
| Loans, including loans held for sale | **$ 4,649** | $ 3,657 |
| Investment securities | **374** | 298 |
| Other | **28** | 24 |
| Total interest income | **5,051** | 3,979 |
| **Interest expense:** | | |
| Deposits | **326** | 311 |
| Securitized debt obligations | **56** | 80 |
| Senior and subordinated notes | **82** | 88 |
| Other borrowings | **17** | 86 |
| Total interest expense | **481** | 565 |
| Net interest income | **4,570** | 3,414 |
| Provision for credit losses | **885** | 573 |
| Net interest income after provision for credit losses | **3,685** | 2,841 |
| **Non-interest income:** | | |
| Service charges and other customer-related fees | **550** | 415 |
| Interchange fees, net | **445** | 328 |
| Total other-than-temporary impairment | **(6)** | (4) |
| Less: Portion of other-than-temporary impairment recorded in AOCI | **(19)** | (10) |
| Net other-than-temporary impairment recognized in earnings | **(25)** | (14) |
| Bargain purchase gain | **0** | 594 |
| Other | **11** | 198 |
| Total non-interest income | **981** | 1,521 |
| **Non-interest expense:** | | |
| Salaries and associate benefits | **1,080** | 864 |
| Occupancy and equipment | **350** | 270 |
| Marketing | **317** | 321 |
| Professional services | **307** | 293 |
| Communications and data processing | **210** | 172 |
| Amortization of intangibles | **177** | 62 |
| Acquisition-related | **46** | 86 |
| Other | **541** | 436 |
| Total non-interest expense | **3,028** | 2,504 |
| Income from continuing operations before income taxes | **1,638** | 1,858 |
| Income tax provision | **494** | 353 |

| | | |
|---|---|---|
| Income from continuing operations, net of tax | **1,144** | 1,505 |
| Loss from discontinued operations, net of tax | **(78)** | (102) |
| Net income | **1,066** | 1,403 |
| Dividends and undistributed earnings allocated to participating securities | **(5)** | (7) |
| Preferred stock dividends | **(13)** | 0 |
| Net income available to common stockholders | **$ 1,048** | $ 1,396 |
| **Basic earnings per common share:** | | |
| Income from continuing operations | **$ 1.94** | $ 2.94 |
| Loss from discontinued operations | **(0.13)** | (0.20) |
| Net income per basic common share | **$ 1.81** | $ 2.74 |
| **Diluted earnings per common share:** | | |
| Income from continuing operations | **$ 1.92** | $ 2.92 |
| Loss from discontinued operations | **(0.13)** | (0.20) |
| Net income per diluted common share | **$ 1.79** | $ 2.72 |
| Dividends paid per common share | **$ 0.05** | $ 0.05 |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

| **(Dollars in millions)** | **Three Months Ended March 31, 2013** | **2012** |
|---|---|---|
| Net income | **$ 1,066** | $ 1,403 |
| Other comprehensive income (loss) before taxes: | | |
| Total net unrealized gains (losses) on securities available for sale | **(209)** | 44 |
| Net unrealized gains (losses) on cash flow hedges | **(21)** | 1 |
| Foreign currency translation adjustments | **(125)** | 55 |
| Other | **4** | 0 |
| Other comprehensive income (loss) before taxes | **(351)** | 100 |
| Income tax provision (benefit) related to other comprehensive income | **(85)** | 16 |
| Other comprehensive income (loss), net of tax | **(266)** | 84 |
| Comprehensive income | **$ 800** | $ 1,487 |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

**CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| (Dollars in millions, except per share data) | March 31, 2013 | December 31, 2012 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | **$ 1,947** | $ 3,440 |
| Interest-bearing deposits with banks | **4,563** | 7,617 |
| Federal funds sold and securities purchased under agreements to resell | **236** | 1 |
| Total cash and cash equivalents | **6,746** | 11,058 |
| Restricted cash for securitization investors | **1,018** | 428 |
| Securities available for sale, at fair value | **63,968** | 63,979 |
| Loans held for investment: | | |
| Unsecuritized loans held for investment, at amortized cost | **150,721** | 162,059 |
| Restricted loans for securitization investors | **40,612** | 43,830 |
| Total loans held for investment | **191,333** | 205,889 |
| Less: Allowance for loan and lease losses | **(4,606)** | (5,156) |
| Net loans held for investment | **186,727** | 200,733 |
| Loans held for sale, at lower of cost or fair value | **6,410** | 201 |
| Premises and equipment, net | **3,736** | 3,587 |
| Interest receivable | **1,378** | 1,694 |
| Goodwill | **13,900** | 13,904 |
| Other | **16,280** | 17,334 |
| **Total assets** | **$ 300,163** | $ 312,918 |
| **Liabilities:** | | |
| Interest payable | **$ 310** | $ 450 |
| Customer deposits: | | |
| Non-interest bearing deposits | **21,317** | 22,467 |
| Interest bearing deposits | **191,093** | 190,018 |
| Total customer deposits | **212,410** | 212,485 |
| Securitized debt obligations | **11,046** | 11,398 |
| Other debt: | | |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | **855** | 1,248 |
| Senior and subordinated notes | **13,255** | 12,686 |
| Other borrowings | **12,336** | 24,578 |
| Total other debt | **26,446** | 38,512 |
| Other liabilities | **8,655** | 9,574 |
| **Total liabilities** | **258,867** | 272,419 |
| Commitments, contingencies and guarantees (see Note 14) | | |
| **Stockholders equity:** | | |
| Preferred stock, par value $.01 per share; 50,000,000 shares authorized; 875,000 shares issued and outstanding as of March 31, 2013 and December 31, 2012 | **0** | 0 |
| | **6** | 6 |

| | | |
|---|---|---|
| Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 634,080,553 and 631,806,585 shares issued as of March 31, 2013 and December 31, 2012, respectively, and 583,982,235 and 582,207,133 shares outstanding as of March 31, 2013 and December 31, 2012, respectively | | |
| Additional paid-in capital, net | **26,256** | 26,188 |
| Retained earnings | **17,876** | 16,853 |
| Accumulated other comprehensive income | **473** | 739 |
| Less: Treasury stock, at cost; par value $.01 per share; 50,098,318 and 49,599,452 shares as of March 31, 2013 and December 31, 2012, respectively | **(3,315)** | (3,287) |
| **Total stockholders equity** | **41,296** | 40,499 |
| **Total liabilities and stockholders equity** | **$ 300,163** | $ 312,918 |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS EQUITY (UNAUDITED)**

| | Preferred Stock | | Common Stock | | | | Accumulated Other Comprehensive | | |
|---|---|---|---|---|---|---|---|---|---|
| (Dollars in millions, except per share data) | Shares | Amount | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Income (Loss) | Treasury Stock | Total Stockholders Equity |
| **Balance as of December 31, 2012** | 875,000 | $ 0 | 631,806,585 | $ 6 | $ 26,188 | $ 16,853 | $ 739 | $ (3,287) | $ 40,499 |
| Comprehensive income (loss) | | | | | | **1,066** | **(266)** | | **800** |
| Cash dividends common stock $0.05 per share | | | | | | **(30)** | | | **(30)** |
| Cash dividends preferred stock 6% per annum | | | | | | **(13)** | | | **(13)** |
| Purchases of treasury stock | | | | | | | | **(28)** | **(28)** |
| Issuances of common stock and restricted stock, net of forfeitures | | | **1,941,752** | | **23** | | | | **23** |
| Exercise of stock options and tax benefits of exercises and restricted stock vesting | | | **332,216** | | **15** | | | | **15** |
| Compensation expense for restricted stock awards and stock options | | | | | **30** | | | | **30** |
| **Balance as of March 31, 2013** | **875,000** | **$ 0** | **634,080,553** | **$ 6** | **$ 26,256** | **$ 17,876** | **$ 473** | **$ (3,315)** | **$ 41,296** |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

**CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| | Three Months Ended March 31, | |
|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** |
| **Operating activities:** | | |
| Income from continuing operations, net of tax | **$ 1,144** | $ 1,505 |
| Loss from discontinued operations, net of tax | **(78)** | (102) |
| Net income | **1,066** | 1,403 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Provision for credit losses | **885** | 573 |
| Depreciation and amortization, net | **341** | 220 |
| Net gains on sales of securities available for sale | **(2)** | (11) |
| Impairment losses on securities available for sale | **25** | 14 |
| Bargain purchase gain | **0** | (594) |
| Loans held for sale: | | |
| Originations | **(266)** | (489) |
| (Gains) losses on sales | **(10)** | (16) |
| Proceeds from sales and paydowns | **803** | 450 |
| Stock plan compensation expense | **54** | 63 |
| Changes in operating assets and liabilities, net of effects of acquisitions: | | |
| (Increase) decrease in interest receivable | **316** | 42 |
| (Increase) decrease in other assets | **608** | 684 |
| Increase (decrease) in interest payable | **(140)** | (82) |
| Increase (decrease) in other liabilities | **(778)** | (572) |
| Net cash (used in) provided by operating activities attributable to discontinued operations | **(108)** | 152 |
| Net cash provided by operating activities | **2,794** | 1,837 |
| **Investing activities:** | | |
| Increase in restricted cash for securitization investors | **(590)** | (299) |
| Purchases of securities available for sale | **(5,921)** | (4,007) |
| Proceeds from paydowns and maturities of securities available for sale | **4,877** | 4,839 |
| Proceeds from sales of securities available for sale | **720** | 7,337 |
| Net (increase) decrease in loans held for investment | **5,875** | 904 |
| Principal recoveries of loans previously charged off | **417** | 406 |
| Additions of premises and equipment | **(236)** | (156) |
| Net cash paid for acquisitions | **0** | 13,740 |
| Net cash provided by (used in) investing activities | **5,142** | 22,764 |
| **Financing activities:** | | |
| Net increase in deposits | **(76)** | 3,877 |
| Issuance of securitized debt obligation | **750** | 0 |
| Maturities and paydowns of securitized debt obligations | **(1,102)** | (1,053) |
| Issuance of senior and subordinated notes | **638** | 1,250 |
| Redemption of junior subordinated debentures | **(3,641)** | 0 |
| Maturities and redemptions of senior and subordinate notes | **210** | (282) |
| Net increase (decrease) in other borrowings | **(8,994)** | (6,713) |
| Net proceeds from issuances of common stock | **23** | 3,188 |
| Proceeds from share-based payment activities | **15** | 16 |
| Dividends paid on common stock | **(30)** | (24) |
| Dividends paid on preferred stock | **(13)** | 0 |
| Purchases of treasury stock | **(28)** | (42) |
| Net cash provided by (used in) financing activities | **(12,248)** | 217 |

| | | |
|---|---|---|
| Increase (decrease) in cash and cash equivalents | **(4,312)** | 24,818 |
| Cash and cash equivalents at beginning of the period | **11,058** | 5,838 |
| Cash and cash equivalents at end of the period | **$ 6,746** | $ 30,656 |
| **Supplemental cash flow information:** | | |
| Non-cash items: | | |
| Fair value of common stock issued in business acquisition | **$ 0** | $ 2,638 |
| Net transfers of loans held for investment to loans held for sale | **6,738** | 4 |
| Redemption of subordinated note | **(1,206)** | 0 |
| Issuance of subordinated note | **1,206** | 0 |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

## NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### The Company

Capital One Financial Corporation, a Delaware Corporation established in 1995 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the Company ) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2013, our principal subsidiaries included:

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

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

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

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

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. 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.

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, which we sometimes refer to as the HSBC 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, $27.8 billion in outstanding credit card receivables designated as held for investment and $327 million in other net assets.

***Operations and Business Segments***

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. See Note 13 Business Segments for additional information.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Basis of Presentation and Use of Estimates**

The accompanying unaudited condensed consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ( U.S. GAAP ) for interim financial information and should be read in conjunction with the audited consolidated financial statements in our Annual Report on Form 10-K for the year ended December 31, 2012 (the 2012 Form 10-K ). Certain financial information that is normally included in the annual financial statements in accordance with U.S. GAAP, but is not required for interim reporting purposes, has been condensed or omitted. In the opinion of management, all adjustments necessary for a fair presentation of our interim unaudited financial statements are reflected.

The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the unaudited condensed consolidated financial statements and related disclosures. These estimates are based on information available as of the date of the unaudited condensed consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Interim period results may not be indicative of results for the full year.

**Principles of Consolidation**

The unaudited condensed consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. All significant intercompany accounts and transactions have been eliminated. Certain prior period amounts have been reclassified to conform to the current period presentation.

**Significant Accounting Policies**

We provide a summary of our significant accounting policies in our 2012 Form 10-K under Notes to Consolidated Financial Statements Note 1 Summary of Significant Accounting Policies. There have been no significant changes to these policies during 2013 other than as disclosed in Note 5 Allowance for Loan and Lease Losses, which provides details on our change in our process for estimating the allowance for loan losses and reserve for unfunded lending commitments for our commercial loan portfolio. Below we describe accounting standards that we adopted in 2013 and recently issued accounting standards that we have not yet adopted.

***Accounting Standards Adopted in 2013***

*Comprehensive Income: Reporting of Amounts Reclassified Out of Accumulated Other Comprehensive Income*

In February 2013, the Financial Accounting Standards Board ( FASB ) issued new guidance requiring an entity to report the effect of significant reclassifications out of accumulated other comprehensive income on the respective line items in net income if the amount being reclassified is required under U.S. GAAP to be reclassified in its entirety to net income. For other amounts that are not required under U.S. GAAP to be reclassified in their entirety to net income in the same reporting period, an entity is required to cross-reference other disclosures required under U.S. GAAP that provide additional detail about those amounts. The new guidance does not change the items which must be reported in other comprehensive income, how such items are measured or when they must be reclassified from other comprehensive income to net income. The information must be presented either on the face of the consolidated statement of comprehensive income or in the notes. The guidance was effective for reporting periods beginning after December 15, 2012. Our adoption of the guidance on January 1, 2013 had no impact on our financial condition, results of operations or liquidity as it only affects our disclosures. See Note 10 Stockholders Equity for further details.

**CAPITAL ONE FINANCIAL CORPORATION**

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

*Offsetting Financial Assets and Liabilities*

In December 2011, the FASB issued guidance intended to enhance current disclosure requirements on offsetting financial assets and liabilities. The new disclosures will enable financial statement users to compare balance sheets prepared under U.S. GAAP and IFRS, which are subject to different offsetting models. Upon adoption, entities will be required to disclose both gross and net information about instruments and transactions eligible for offset in the balance sheet as well as instruments and transactions subject to an agreement similar to a master netting arrangement. The disclosures will be required irrespective of whether such instruments are presented gross or net on the balance sheet. The guidance was effective for annual and interim reporting periods beginning on or after January 1, 2013, with comparative retrospective disclosures required for all periods presented. Our adoption of the guidance had no effect on our financial condition, results of operations or liquidity as it only affects our disclosures. See Note 9 Derivatives Instruments and Hedging Activities for further details.

***Recently Issued but Not Yet Adopted Accounting Standards***

*Obligations Resulting from Joint and Several Liability Arrangements*

In February 2013, the FASB issued guidance for the recognition, measurement, and disclosure of obligations resulting from joint and several liability arrangements for which the total amount of the obligation within the scope of this guidance is fixed at the reporting date, except for obligations addressed within existing guidance in U.S. GAAP. The guidance requires an entity to measure obligations as the sum of the amount the reporting entity agreed to pay on the basis of its arrangement among its co-obligors and any additional amount the reporting entity expects to pay on behalf of its co-obligors. The guidance also requires an entity to disclose the nature and amount of the obligation as well as other information about those obligations. The guidance is effective for annual and interim periods beginning after December 15, 2013, with early adoption permitted. We are currently evaluating the impact of the guidance.

**NOTE 2 DISCONTINUED OPERATIONS**

**Shutdown of Mortgage Origination Operations of our Wholesale Mortgage Banking Unit**

In the third quarter of 2007, we closed the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding Inc. ( GreenPoint ), which was acquired by us in December 2006 as part of the North Fork acquisition. The results of the wholesale banking unit have been accounted for as a discontinued operation and are therefore not included in our results from continuing operations for the three months ended March 31, 2013 and 2012. We have no significant continuing involvement in these operations.

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

| | Three Months Ended March 31, | |
|---|---|---|
| **(Dollars in millions)** | **2013** | **2012** |
| Non-interest expense, net | **$ (125)** | $ (161) |
| | | |
| Loss from discontinued operations before taxes | **(125)** | (161) |
| Income tax benefit | **(47)** | (59) |

| | | |
|---|---|---|
| Loss from discontinued operations | **$ (78)** | $ (102) |

CAPITAL ONE FINANCIAL CORPORATION

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

The loss from discontinued operations includes an expense of $107 million ($67 million net of tax) and $153 million ($97 million net of tax) for the three months ended March 31, 2013 and 2012, respectively, attributable to provisions for mortgage loan repurchase losses related to representations and warranties provided on loans previously sold to third parties by the wholesale mortgage banking unit. See Note 14 Commitments, Contingencies and Guarantees for further details.

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets, which consisted primarily of income tax receivables, of $309 million as of both March 31, 2013 and December 31, 2012. Liabilities, which primarily consisted of reserves for representations and warranties on loans previously sold to third parties, totaled $752 million and $644 million as of March 31, 2013 and December 31, 2012, respectively.

## NOTE 3 INVESTMENT SECURITIES

Our portfolio of investment securities available for sale, which had a fair value of $64.0 billion as of both March 31, 2013 and December 31, 2012, consisted primarily of the following: U.S. Treasury debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies; agency and non-agency mortgage-backed securities ( MBS ); other asset-backed securities and other investments. Based on fair value, investments in U.S. Treasury, agency securities and other securities explicitly or implicitly guaranteed by the U.S. government represented 78% of our total investment securities available for sale as of March 31, 2013, compared with 77% as of December 31, 2012.

### Securities at Amortized Cost and Fair Value

Substantially all of our investment securities were classified as available for sale as of March 31, 2013 and December 31, 2012 and reported in our condensed consolidated balance sheets at fair value. We had investment securities designated as held to maturity reported at amortized cost of $2 million and $9 million as of March 31, 2013 and December 31, 2012, respectively. These investment securities are included in other assets in our condensed consolidated balance sheets.

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CAPITAL ONE FINANCIAL CORPORATION

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

The following tables present the amortized cost, fair value and corresponding gross unrealized gains (losses), by major security type, for our investment securities as of March 31, 2013 and December 31, 2012. The gross unrealized gains (losses) related to our available-for-sale investment securities are recorded, net of tax, as a component of accumulated other comprehensive income ( AOCI ).

| | March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Amortized Cost | Total Gross Unrealized Gains | Gross Unrealized Losses-OTTI[1] | Gross Unrealized Losses-Other[2] | Total Gross Unrealized Losses | Fair Value |
| **Securities available for sale:** | | | | | | |
| U.S. Treasury debt obligations | $ 1,043 | $ 3 | $ 0 | $ 0 | $ 0 | $ 1,046 |
| U.S. agency debt obligations[3] | 301 | 1 | 0 | (1) | (1) | 301 |
| Corporate debt securities guaranteed by U.S. government agencies [4] | 1,117 | 12 | 0 | (1) | (1) | 1,128 |
| Residential mortgage-backed securities ( RMBS ): | | | | | | |
| Agency[5] | 40,413 | 545 | 0 | (209) | (209) | 40,749 |
| Non-agency | 3,499 | 384 | (12) | (3) | (15) | 3,868 |
| Total RMBS | 43,912 | 929 | (12) | (212) | (224) | 44,617 |
| Commercial mortgage-backed securities ( CMBS ): | | | | | | |
| Agency[5] | 6,322 | 91 | 0 | (20) | (20) | 6,393 |
| Non-agency | 1,686 | 51 | 0 | (7) | (7) | 1,730 |
| Total CMBS | 8,008 | 142 | 0 | (27) | (27) | 8,123 |
| Other asset-backed securities ( ABS[6] ) | 7,298 | 62 | 0 | (3) | (3) | 7,357 |
| Other securities[7] | 1,369 | 29 | 0 | (2) | (2) | 1,396 |
| Total securities available for sale | $ 63,048 | $ 1,178 | $ (12) | $ (246) | $ (258) | $ 63,968 |

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**CAPITAL ONE FINANCIAL CORPORATION**

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

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| (Dollars in millions) | Amortized Cost | Total Gross Unrealized Gains | Gross Unrealized Losses-OTTI(1) | Gross Unrealized Losses-Other(2) | Total Gross Unrealized Losses | Fair Value |
| **Securities available for sale:** | | | | | | |
| U.S. Treasury debt obligations | $ 1,548 | $ 4 | $ 0 | $ 0 | $ 0 | $ 1,552 |
| U.S. agency debt obligations(3) | 301 | 2 | 0 | (1) | (1) | 302 |
| Corporate debt securities guaranteed by U.S. government agencies(4) | 1,003 | 10 | 0 | (1) | (1) | 1,012 |
| Residential mortgage-backed securities ( RMBS ): | | | | | | |
| Agency(5) | 39,408 | 652 | 0 | (58) | (58) | 40,002 |
| Non-agency | 3,607 | 312 | (38) | (10) | (48) | 3,871 |
| Total RMBS | 43,015 | 964 | (38) | (68) | (106) | 43,873 |
| Commercial mortgage-backed securities ( CMBS ): | | | | | | |
| Agency(5) | 6,045 | 103 | 0 | (4) | (4) | 6,144 |
| Non-agency | 1,425 | 62 | 0 | (2) | (2) | 1,485 |
| Total CMBS | 7,470 | 165 | 0 | (6) | (6) | 7,629 |
| Other asset-backed securities ( ABS(6) ) | 8,393 | 70 | 0 | (5) | (5) | 8,458 |
| Other securities(7) | 1,120 | 34 | 0 | (1) | (1) | 1,153 |
| Total securities available for sale | $ 62,850 | $ 1,249 | $ (38) | $ (82) | $ (120) | $ 63,979 |

(1) Represents the amount of cumulative non-credit other-than-temporary impairment ( OTTI ) losses recorded in AOCI. These losses are included in total gross unrealized losses.

(2) Represents the amount of cumulative gross unrealized losses on securities for which we have not recognized OTTI.

(3) Includes debt securities issued by Fannie Mae and Freddie Mac with an amortized cost of $300 million as of both March 31, 2013 and December 31, 2012, and fair value of $300 million and $302 as of March 31, 2013 and December 31, 2012, respectively.

(4) Consists of corporate debt securities guaranteed by other U.S. government agencies, such as the Export-Import Bank of the United States.

(5) Includes MBS issued by Fannie Mae, Freddie Mac and Ginnie Mae, each of which individually exceeded 10% of our stockholders equity as of the end of each reported period. Fannie Mae MBS had an amortized cost of $24.8 billion and $22.9 billion as of March 31, 2013 and December 31, 2012, respectively, and a fair value of $25.0 billion and $23.2 billion as of March 31, 2013 and December 31, 2012, respectively. Freddie Mac MBS had an amortized cost of $12.6 billion as of both March 31, 2013 and December 31, 2012, and a fair value of $12.7 billion and $12.9 billion as of March 31, 2013 and December 31, 2012, respectively. Ginnie Mae MBS had an amortized cost of $9.0 billion and $9.9 billion as of March 31, 2013 and December 31, 2012, respectively, and a fair value of $9.1 billion and $10.0 billion as of March 31, 2013 and December 31, 2012, respectively.

(6) The other asset-backed securities portfolio was collateralized by approximately 68% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 5% equipment loans, and 2% of other assets as of March 31, 2013. In comparison, the distribution was approximately 64% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 1% student loans, 5% equipment loans, 2% commercial paper, and 4% of other assets as of December 31, 2012. Approximately 88% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of March 31, 2013, compared with 82% as of December 31, 2012.

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

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Securities Available for Sale in a Gross Unrealized Loss Position**

The table below provides, by major security type, information about our available-for-sale investment securities in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2013 and December 31, 2012.

| | March 31, 2013 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| (Dollars in millions) | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Securities available for sale:** | | | | | | |
| U.S. agency debt obligations[(1)] | $ 199 | $ (1) | $ 0 | $ 0 | $ 199 | $ (1) |
| Corporate debt securities guaranteed by U.S. government agencies [(2)] | 327 | (1) | 0 | 0 | 327 | (1) |
| RMBS: | | | | | | |
| Agency[(3)] | 16,143 | (196) | 852 | (13) | 16,995 | (209) |
| Non-agency | 117 | (2) | 249 | (13) | 366 | (15) |
| Total RMBS | 16,260 | (198) | 1,101 | (26) | 17,361 | (224) |
| CMBS: | | | | | | |
| Agency[(3)] | 1,910 | (20) | 6 | 0 | 1,916 | (20) |
| Non-agency | 513 | (6) | 40 | (1) | 553 | (7) |
| Total CMBS | 2,423 | (26) | 46 | (1) | 2,469 | (27) |
| Other ABS | 1,114 | (1) | 181 | (2) | 1,295 | (3) |
| Other securities | 242 | (2) | 13 | 0 | 255 | (2) |
| Total securities available for sale in a gross unrealized loss position | $ 20,565 | $ (229) | $ 1,341 | $ (29) | $ 21,906 | $ (258) |

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CAPITAL ONE FINANCIAL CORPORATION

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

| | December 31, 2012 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| (Dollars in millions) | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Securities available for sale:** | | | | | | |
| U.S. agency debt obligations[1] | $ 199 | $ (1) | $ 0 | $ 0 | $ 199 | $ (1) |
| Corporate debt securities guaranteed by U.S. government agencies[2] | 172 | (1) | 0 | 0 | 172 | (1) |
| RMBS: | | | | | | |
| Agency[3] | 8,720 | (46) | 884 | (12) | 9,604 | (58) |
| Non-agency | 196 | (19) | 471 | (29) | 667 | (48) |
| Total RMBS | 8,916 | (65) | 1,355 | (41) | 10,271 | (106) |
| CMBS: | | | | | | |
| Agency[3] | 1,009 | (4) | 0 | 0 | 1,009 | (4) |
| Non-agency | 201 | (2) | 0 | 0 | 201 | (2) |
| Total CMBS | 1,210 | (6) | 0 | 0 | 1,210 | (6) |
| Other ABS | 1,102 | (4) | 99 | (1) | 1,201 | (5) |
| Other securities | 103 | 0 | 13 | (1) | 116 | (1) |
| Total securities available for sale in a gross unrealized loss position | $ 11,702 | $ (77) | $ 1,467 | $ (43) | $ 13,169 | $ (120) |

(1) Includes debt securities issued by Fannie Mae and Freddie Mac.

(2) Includes corporate debt securities guaranteed by other U.S. government agencies, such as the Export-Import Bank of the United States.

(3) Includes mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.

The gross unrealized losses on our available-for-sale securities investment of $258 million as of March 31, 2013 relate to 605 individual securities. Our investments in non-agency MBS and non-agency asset-backed securities accounted for $25 million, or 10%, of total gross unrealized losses as of March 31, 2013. Of the $258 million gross unrealized losses as of March 31, 2013, $29 million related to investment securities that had been in a loss position for 12 months or longer. As discussed in more detail below, we conduct periodic reviews of all investment securities with unrealized losses to assess whether the impairment is other-than-temporary. Based on our assessments, we have recorded OTTI for a portion of our non-agency residential MBS, which is discussed in more detail in the Other-Than-Temporary Impairment section of this footnote.

**CAPITAL ONE FINANCIAL CORPORATION**

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

**Maturities and Yields of Securities Available for Sale**

The following table summarizes the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of March 31, 2013:

| | March 31, 2013 | |
|---|---|---|
| **(Dollars in millions)** | **Amortized Cost** | **Fair Value** |
| Due in 1 year or less | **$ 1,510** | **$ 1,514** |
| Due after 1 year through 5 years | **6,790** | **6,825** |
| Due after 5 years through 10 years | **4,863** | **4,918** |
| Due after 10 years[1] | **49,885** | **50,711** |
| Total | **$ 63,048** | **$ 63,968** |

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

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CAPITAL ONE FINANCIAL CORPORATION

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

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below summarizes, by major security type, the expected maturities and the weighted average yields of our investment securities as of March 31, 2013. Actual calls or prepayment rates may differ from our estimates, which may cause the actual maturities of our investment securities to differ from the expected maturities presented below.

| | March 31, 2013 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Due in 1 Year or Less | | Due > 1 Year through 5 Years | | Due > 5 Years through 10 Years | | Due > 10 Years | | Total | |
| (Dollars in millions) | Amount | Average Yield[(1)] | Amount | Average Yield[(1)] | Amount | Average Yield[(1)] | Amount | Average Yield[(1)] | Amount | Average Yield[(1)] |
| **Fair value of securities available for sale:** | | | | | | | | | | |
| U.S. Treasury debt obligations | $ 200 | 0.23% | $ 846 | 0.50% | $ 0 | 0.00% | $ 0 | 0.00% | $ 1,046 | 0.45% |
| U.S. agency debt obligations[(2)] | 102 | 4.59 | 0 | 0.00 | 199 | 1.63 | 0 | 0.00 | 301 | 2.62 |
| Corporate debt securities guaranteed by U.S. government agencies[(3)] | 0 | 0.00 | 216 | 1.92 | 897 | 1.78 | 15 | 3.48 | 1,128 | 1.83 |
| RMBS: | | | | | | | | | | |
| Agency[(4)] | 948 | 3.14 | 16,094 | 2.85 | 22,684 | 2.45 | 1,023 | 2.79 | 40,749 | 2.63 |
| Non-agency | 80 | 8.14 | 1,726 | 7.77 | 1,829 | 7.93 | 233 | 10.02 | 3,868 | 7.98 |
| Total RMBS | 1,028 | 3.52 | 17,820 | 3.30 | 24,513 | 2.82 | 1,256 | 3.96 | 44,617 | 3.06 |
| CMBS: | | | | | | | | | | |
| Agency[(4)] | 213 | 1.52 | 3,574 | 1.96 | 2,597 | 2.32 | 9 | 6.85 | 6,393 | 2.10 |
| Non-agency | 254 | 3.83 | 261 | 3.25 | 1,195 | 3.12 | 20 | 3.04 | 1,730 | 3.24 |
| Total CMBS | 467 | 2.77 | 3,835 | 2.04 | 3,792 | 2.57 | 29 | 4.11 | 8,123 | 2.34 |
| Other ABS | 1,181 | 1.34 | 5,555 | 1.04 | 528 | 3.33 | 93 | 6.76 | 7,357 | 1.31 |
| Other securities[(5)] | 566 | 0.70 | 487 | 1.77 | 185 | 2.29 | 158 | 0.76 | 1,396 | 1.31 |
| Total securities available for sale | $ 3,544 | 2.10% | $ 28,759 | 2.57% | $ 30,114 | 2.75% | $ 1,551 | 3.79% | $ 63,968 | 2.66% |
| **Amortized cost of securities available for sale** | | | | | | | | | | |