UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended June 30, 2013

OR

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

For the transition period from ______ to ______

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

(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 July 31, 2013, there were 585,340,832 shares of the registrant s Common Stock, par value $.01 per share, outstanding.

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PART I FINANCIAL INFORMATION

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

This discussion contains forward-looking statements that are based upon management s current expectations and are subject to significant uncertainties and changes in circumstances. Please review Forward-Looking Statements for more information on the forward-looking statements in this Quarterly Report on Form 10-Q (this Report). Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in Part II Item 1A. Risk Factors in this Report and in Part I Item 1A. Risk Factors in our 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 June 30, 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 second quarter and first six months of 2013 and 2012, and selected comparative consolidated balance sheet data as of June 30, 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

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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 $32.3 billion and $37.1 billion as of June 30, 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 and no 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 June 30, 2013	2012	Change	Six Months Ended June 30, 2013	2012	Change
Income statement						
Net interest income	**$ 4,553**	$ 4,001	**14%**	**$ 9,123**	$ 7,415	**23%**
Non-interest income[1]	**1,085**	1,054	**3**	**2,066**	2,575	**(20)**
Total net revenue[2]	**5,638**	5,055	**12**	**11,189**	9,990	**12**
Provision for credit losses	**762**	1,677	**(55)**	**1,647**	2,250	**(27)**
Non-interest expense[3]	**3,059**	3,142	**(3)**	**6,087**	5,646	**8**
Income from continuing operations before income taxes	**1,817**	236	**670**	**3,455**	2,094	**65**
Income tax provision	**581**	43	**1,251**	**1,075**	396	**171**
Income from continuing operations, net of tax	**1,236**	193	**540**	**2,380**	1,698	**40**
Loss from discontinued operations, net of tax[4]	**(119)**	(100)	**(19)**	**(197)**	(202)	**2**
Net income	**1,117**	93	**1,101**	**2,183**	1,496	**46**
Dividends and undistributed earnings allocated to participating securities	**(4)**	(1)	**(300)**	**(9)**	(8)	**(13)**
Preferred stock dividends	**(13)**		**	**(26)**		**
Net income available to common shareholders	**$ 1,100**	$ 92	**1,096%**	**$ 2,148**	$ 1,488	**44%**
Common share statistics						
Earnings per common share:						
Basic earnings per common share .	**$ 1.89**	$ 0.16	**1,081%**	**$ 3.70**	$ 2.74	**35%**
Diluted earnings per common share	**1.87**	0.16	**1,069**	**3.65**	2.72	**34**
Weighted average common shares outstanding:						
Basic earnings per common share .	**581.5**	577.7	**1**	**581.0**	543.3	**7**
Diluted earnings per common share	**588.8**	582.8	**1**	**587.9**	548.0	**7**
Dividends per common share	**0.30**	0.05	**500**	**0.35**	0.10	**250**
Average balances						
Loans held for investment[5]	**$ 190,562**	$ 192,632	**(1)%**	**$ 193,265**	$ 172,767	**12%**
Interest-earning assets	**266,544**	265,019	**1**	**269,008**	237,667	**13**
Total assets	**297,766**	295,306	**1**	**300,294**	270,786	**11**
Interest-bearing deposits	**189,311**	195,597	**(3)**	**189,958**	173,611	**9**
Total deposits	**210,650**	214,914	**(2)**	**211,100**	192,586	**10**
Borrowings	**36,915**	35,418	**4**	**39,232**	35,706	**10**
Common equity	**40,726**	37,533	**9**	**40,418**	35,258	**15**
Total stockholders equity	**41,579**	37,533	**11**	**41,271**	35,258	**17**
Selected performance metrics						
Purchase volume[6]	**$ 50,788**	$ 45,228	**12%**	**$ 95,886**	$ 79,726	**20%**
Total net revenue margin[7]	**8.46%**	7.63%	**83bps**	**8.32%**	8.41%	**(9)bps**
Net interest margin[8]	**6.83**	6.04	**79**	**6.78**	6.24	**54**
Net charge-offs	**$ 969**	$ 738	**31%**	**$ 2,048**	$ 1,518	**35%**
Net charge-off rate[9]	**2.03%**	1.53%	**50bps**	**2.12%**	1.76%	**36bps**
Net charge-off rate (excluding acquired loans)[10]	**2.46**	1.96	**50**	**2.58**	2.17	**41**
Return on average assets[11]	**1.66**	0.26	**140**	**1.59**	1.25	**34**
Return on average common equity[12]	**11.97**	2.05	**992**	**11.60**	9.59	**201**
Return on average tangible common equity[13]	**19.70**	3.52	**1,618**	**19.27**	16.55	**272**
Equity-to-assets ratio[14]	**13.96**	12.71	**125**	**13.74**	13.02	**72**

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(Dollars in millions, except per share data as noted)	Three Months Ended June 30, 2013	2012	Change	Six Months Ended June 30, 2013	2012	Change
Non-interest expense as a % of average loans held for investment[15]	**6.42**	6.52	**(10)**	**6.30**	6.54	**(24)**
Efficiency ratio[16]	**54.26**	62.16	**(790)**	**54.40**	56.52	**(212)**
Effective income tax rate	**32.0**	18.2	**1,380**	**31.1**	18.9	**1,220**

	June 30, 2013	December 31, 2012	Change
Balance sheet (period end)			
Loans held for investment[5]	**$ 191,512**	$ 205,889	**(7)%**
Interest-earning assets	**265,693**	280,096	**(5)**
Total assets.	**296,542**	312,918	**(5)**
Interest-bearing deposits	**187,768**	190,018	**(1)**
Total deposits	**209,865**	212,485	**(1)**
Borrowings.	**36,231**	49,910	**(27)**
Common equity	**40,188**	39,646	**1**
Total stockholders equity	**41,041**	40,499	**1**
Credit quality metrics (period end)			
Allowance for loan and lease losses	**$ 4,407**	$ 5,156	**(15)%**
Allowance as a % of loans held of investment (allowance coverage ratio)	**2.30%**	2.50%	**(20)bps**
Allowance as a % of loans held of investment (excluding acquired loans)[10]	**2.74**	3.02	**(28)**
30+ days performing delinquency rate	**2.35**	2.70	**(35)**
30+ days performing delinquency rate (excluding acquired loans)[10]	**2.83**	3.29	**(46)**
30+ days delinquency rate	**2.71**	3.09	**(38)**
30+ days delinquency rate (excluding acquired loans)[10]	**3.26**	3.77	**(51)**
Capital ratios			
Tier 1 common ratio[17]	**12.06%**	10.96%	**110bps**
Tier 1 risk-based capital ratio[18]	**12.45**	11.34	**111**
Total risk-based capital ratio[19]	**14.67**	13.56	**111**
Tangible common equity (TCE) ratio[20]	**8.67**	7.90	**77**
Associates			
Full-time equivalent employees (in thousands)	**39.6**	39.6	**%**

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

(1) 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.

(2) Total net revenue was reduced by $192 million and $311 million in the second quarter of 2013 and 2012, respectively, and by $457 million and $434 million in the first six months of 2013 and 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees. The reserve for estimated uncollectible billed finance charges and fees, which we refer to as the finance charge and fee reserve, totaled $197 million and $307 million as of June 30, 2013 and December 31, 2012, respectively.

(3) Includes purchased credit card relationship (PCCR) intangible amortization of $110 million and $88 million in the second quarter of 2013 and 2012, respectively, and $226 million and $92 million in the first six months 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 $43 million and $51 million in the second quarter of 2013 and 2012, respectively, and $87 million and $97 million in the first six months of 2013 and 2012, respectively.

(4) 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.

(5) 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

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collected was $32.3 billion and $37.1 billion as of June 30, 2013 and December 31, 2012, respectively. The average carrying value of acquired loans was $33.1 billion and $42.2 billion in the second quarter of 2013 and 2012, respectively, and $34.4 billion and $32.6 billion in the first six months of 2013 and 2012, respectively. The average balance of loans held for investment, excluding the carrying value of acquired loans, was $157.4 billion and $150.5 billion in the second quarter of 2013 and 2012, respectively, and $158.8 billion and $140.1 billion in the first six months of 2013 and 2012, respectively. See Note 4 Loans for additional information.

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

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

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

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

(10) 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.

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

(12) Prior to the second quarter of 2013, we disclosed return on average total stockholders equity, which we calculated based on annualized income from continuing operations, net of tax, for the period divided by average stockholders equity for the period. Effective for the second quarter of 2013, we began disclosing return on average common equity (ROCE), which is calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average common equity. We believe ROCE is a more useful measure to assess operating performance and capital adequacy because it better reflects income available to common equity holders after taking into account consideration paid on securities senior to our common equity. Our calculation of ROCE may not be comparable to similarly titled measures reported by other companies.

(13) Prior to the second quarter of 2013, we calculated return on average tangible common equity (ROTCE), a non-GAAP measure, based on annualized income from continuing operations, net of tax, for the period divided by average tangible common equity for the period. Effective for the second quarter of 2013, we revised our method of calculating ROTCE to reflect the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average tangible common equity. We believe our revised calculation of ROTCE is a more useful measure to assess operating performance and capital adequacy because the revised calculation better reflects income available to common equity holders after taking into account consideration paid on securities senior to our common equity. Our calculation of ROTCE may not be comparable to similarly titled measures reported by other companies. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information.

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

(15) Calculated based on annualized non-interest expense, 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 June 30, 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 $191.5 billion, deposits of $209.9 billion and stockholders equity of $41.0 billion as of June 30, 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, 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 billion.

Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the second quarter and first six months of 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 generally accepted accounting principles in the U.S. (U.S. GAAP) results in Note 13 Business Segments of this Report.

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Table 2: Business Segment Results

	Three Months Ended June 30,							
	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	**$ 3,636**	**65%**	**$ 719**	**58%**	$ 3,121	62%	$ (297)	(154)%
Consumer Banking	**1,667**	**30**	**444**	**36**	1,681	33	438	227
Commercial Banking	**550**	**9**	**190**	**15**	509	10	228	118
Other[3]	**(215)**	**(4)**	**(117)**	**(9)**	(256)	(5)	(176)	(91)
Total from continuing operations	**$ 5,638**	**100%**	**$ 1,236**	**100%**	$ 5,055	100%	$ 193	100%

	Six Months Ended June 30,							
	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	**$ 7,287**	**65%**	**$ 1,405**	**59%**	$ 5,711	57%	$ 269	16%
Consumer Banking	**3,326**	**30**	**827**	**35**	3,145	32	662	39
Commercial Banking	**1,088**	**10**	**393**	**16**	1,025	10	438	26
Other[3]	**(512)**	**(5)**	**(245)**	**(10)**	109	1	329	19
Total from continuing operations	**$ 11,189**	**100%**	**$ 2,380**	**100%**	$ 9,990	100%	$ 1,698	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 generated solid results in the second quarter of 2013, led by strong profitability and market share gains in parts of our Domestic Card business. Relatively stable economic conditions in the U.S. drove contributed to purchase volume growth and continued overall positive credit metrics. Our earnings for the quarter further strengthened our balance sheet and existing capital levels.

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. On July 2, 2013, we announced that our Board of Directors authorized the repurchase of up to $1 billion of shares of our common stock, subject to the closing of the previously announced sale of our Best Buy loan portfolio. The Board of Governors of the Federal Reserve System (the Federal Reserve) informed us that, contingent on the closing of the sale of the Best Buy loan portfolio, we may repurchase the shares through March 31, 2014. We expect the sale of the Best Buy loan portfolio to be completed in the third quarter of 2013.

In the near term, we continue to navigate the impact of changes in our product mix, the expected run-off of certain acquired mortgage and card loans, competitive dynamics in our business and macroeconomic trends. We believe that 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 continue to generate and distribute capital, deliver sustained shareholder value and deepen our customer relationships with new products and services.

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Financial Highlights

We reported net income of $1.1 billion ($1.87 per diluted share) on total net revenue of $5.6 billion for the second quarter of 2013, with each of our three business segments contributing to our earnings. In comparison, we reported net income of $93 million ($0.16 per diluted share) on total net revenue of $5.1 billion for the second quarter of 2012. Net income totaled $2.2 billion ($3.65 per diluted share) on total net revenue of $11.2 billion for the first six months of 2013, compared with net income of $1.5 billion ($2.72 per diluted share) on total net revenue of $10.0 billion for the first six months of 2012.

Our Tier 1 common ratio, as calculated under Basel I, increased to 12.1% as of June 30, 2013, up 30 basis points from 11.8% as of March 31, 2013, and up 110 basis points from 11.0% as of December 31, 2012. The increase in our Tier 1 common ratio reflects strong internal capital generation from earnings. See Capital Management below for additional information.

Below are additional highlights of our performance in the second quarter and first six months of 2013. These highlights generally are based on a comparison between the second quarter of 2013 and 2012 results and the first six months of 2013 and 2012 results, except as otherwise noted. The discussion of our financial condition and credit performance is generally based on changes between June 30, 2013 and 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 second quarter of 2013 increased by $1.0 billion from the second quarter of 2012, while our net income of $2.2 billion for the first six months of 2013 increased by $687 million from the first six months of 2012. A significant driver of the increase in earnings in the second quarter and first six months of 2013 versus the second quarter and first six months of 2012 was the absence of the provision for credit losses of $1.2 billion for the credit card receivables acquired in the 2012 U.S. card acquisition and the absence of a charge of $174 million to establish a reserve for estimated uncollectible billed finance charges and fees related to these loans, both of which were recorded in the second quarter of 2012, which was partially offset by the absence of the bargain purchase gain of $594 million recorded at acquisition of ING Direct in the first quarter of 2012. Other factors contributing to the increase in earnings included growth in total net revenues 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 higher ongoing operating expenses associated with these acquisitions as well as an increase in intangible amortization expense.

Loans Held for Investment: Period-end loans held for investment decreased by $14.4 billion, or 7%, in the first six months of 2013, to $191.5 billion as of June 30, 2013, from $205.9 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy loan portfolio of approximately $7 billion to the held-for-sale category in the first quarter of 2013. Excluding the transfer of the Best Buy loan portfolio to held for sale, period-end loans held for investment decreased due to typical seasonally lower purchase volumes and higher credit card loan pay downs in the first half of the year, the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition and continued expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business. The pay downs and run-off of card balances were partially offset by increased purchase volume in our Credit Card business, 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 2.03% for the second quarter of 2013, compared with 1.53% for the second quarter of 2012. The net-charge off rate was 2.12% for the first six months of 2013, compared with 1.76% for the first six months of 2012. The increase in our reported net charge-offs and net charge-off rates was largely due to the inclusion in the second quarter and first six months of 2012 of the addition of acquired loans from the 2012 U.S. card acquisition in the denominator in

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calculating our reported net charge-off rates, coupled with a lag in initial charge-offs related to this portfolio because we typically do not charge-off credit card loans until the account is 180 days past due. Our reported 30+ day delinquency rate declined to 2.71% as of June 30, 2013, from 3.09% as of December 31, 2012. Delinquency rates in our consumer lending businesses have historically exhibited seasonal patterns, with delinquency rates generally tending to decrease in the first two quarters of the year as customers use income tax refunds to pay down outstanding loan balances. However, the improvement in our card delinquency rates in the second quarter of 2013 was better than expected based on normal seasonal patterns. 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 $749 million to $4.4 billion as of June 30, 2013, from $5.2 billion as of December 31, 2012. The reduction was attributable to an allowance release of $460 million, attributable to an improved credit outlook, and the transfer of the Best Buy loan portfolio to held for sale. The allowance coverage ratio declined to 2.30% as of June 30, 2013, from 2.50% as of December 31, 2012.

Representation and Warranty Reserve: We recorded a provision for mortgage representation and warranty losses of $183 million and $280 million in the second quarter and first six months of 2013, respectively, compared with a provision for mortgage representation and warranty losses of $180 million and $349 million in the second quarter and first six months of 2012, respectively. Our mortgage representation and warranty reserve increased to $1.2 billion as of June 30, 2013, from $899 million as of December 31, 2012.

Business Segments

Credit Card: Our Credit Card business generated net income from continuing operations of $719 million and $1.4 billion in the second quarter and first six months of 2013, respectively, compared with a net loss from continuing operations of $297 million in the second quarter of 2012 and net income from continuing operations of $269 million in the first six months of 2012. A significant driver of the improvement in the results of our Credit Card business in the second quarter and first six months of 2013 versus the second quarter and first six months of 2012 was the absence of the provision for credit losses of $1.2 billion to establish an allowance for the credit card receivables acquired in the 2012 U.S. card acquisition and the absence of a charge of $174 million to establish a reserve for estimated uncollectible billed finance charges and fees related to these loans, both of which were recorded in the second quarter of 2012. The improvement also reflected higher total net revenue attributable to the 2012 U.S. card acquisition, coupled with increased purchase volume in our legacy card business. The increase in total net revenue was partially offset by higher operating expenses resulting from the 2012 U.S. card acquisition. Period-end loans held for investment in our Credit Card business decreased by $13.5 billion, or 15%, in the first six months of 2013, to $78.3 billion as of June 30, 2013, from $91.8 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 loan portfolio, period-end loans held for investment decreased due to typical seasonally lower purchase volumes and higher pay downs in the first half of the year, as well as the expected continued run-off of our installment loan portfolio and the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $444 million and $827 million in the second quarter and first six months of 2013, respectively, compared with net income from continuing operations of $438 million and $662 million in the second quarter and first six months of 2012, respectively. The increase in earnings was attributable to growth in total net revenue and a decrease in non-interest expense. Growth in total 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. The decrease in non-interest expense was largely due to the significant reduction of ING Direct acquisition-related costs most of which were 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

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our Consumer Banking business declined by $2.9 billion, or 4%, in the first six months of 2013 to $72.2 billion as of June 30, 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 $190 million and $393 million in the second quarter and first six months of 2013, respectively, compared with net income from continuing operations of $228 million and $438 million in the second quarter and first six months of 2012, respectively. Growth in commercial real estate and commercial and industrial loans and higher deposit balances contributed to an increase in total net revenue. The favorable impact from higher total net revenue was offset by smaller allowance releases, which impacted the provision for credit losses in the second quarter and first six months of 2013 relative to the same prior year periods. Period-end loans held for investment in our Commercial Banking business increased by $2.0 billion, or 5%, in the first six months of 2013 to $40.8 billion as of June 30, 2013, from $38.8 billion as of December 31, 2012. The increase was driven by strong loan originations in the commercial and industrial and commercial real estate businesses, which were partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Report. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in Part I-Item 1. Business and Part I-Item 7. Management s Discussion and Analysis of Financial Condition and Results of Operations in our 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 Report for more information on forward-looking statements included 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 continue to expect average interest-earning assets to decline in 2013. We also continue to 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, principally those we acquired, coupled with the sale of the Best Buy loan 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 to cause ending loan balances in 2013 to decline compared to 2012 year-end balances, primarily due to approximately $9.5 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 expected sale of the Best Buy loan portfolio. We expect this decline to be partially offset by growth in certain of our businesses, including auto and Commercial Banking. We expect intensifying competition in several businesses, particularly auto and commercial and industrial lending.

We expect pre-provision net income of approximately $10 billion in 2013. We continue to expect operating expense of approximately $11 billion and marketing expense of approximately $1.5 billion in 2013. 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. On July 2, 2013, we announced that our Board of Directors authorized the repurchase of up to $1 billion of shares of our common stock, subject to the closing of the previously announced sale of the Best Buy loan portfolio. The Federal Reserve informed us that, contingent on the closing of the sale of the Best Buy loan portfolio, we may repurchase the shares through March 31, 2014.

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 loan 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 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 growth and profitability.

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 six months 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 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 had 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 impact on our future 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.

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 second quarter and first six months of 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 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 second quarter and first six months of 2013 and 2012.

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

	Three Months Ended June 30,					
	2013			2012		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate
Assets:						
Interest-earning assets:						
Credit card:						
Domestic	**$ 76,125**	**$ 2,782**	**14.62%**	$ 71,768	$ 2,381	13.27%
International	**7,980**	**323**	**16.19**	8,194	291	14.21
Credit card	**84,105**	**3,105**	**14.77**	79,962	2,672	13.37
Consumer banking	**73,065**	**1,093**	**5.98**	77,886	1,200	6.16
Commercial banking	**39,530**	**379**	**3.84**	35,625	376	4.22
Other	**174**	**19**	**43.68**	137	9	26.28
Total loans, including loans held for sale	**196,874**	**4,596**	**9.34**	193,610	4,257	8.80
Investment securities[4]	**63,907**	**391**	**2.45**	56,972	335	2.35
Cash equivalents and other interest-earning assets .	**5,763**	**23**	**1.60**	14,437	24	0.66
Total interest-earning assets	**$ 266,544**	**$ 5,010**	**7.52%**	$ 265,019	$ 4,616	6.97%
Cash and due from banks	**2,677**			2,245		
Allowance for loan and lease losses	**(4,604)**			(4,065)		
Premises and equipment, net	**3,784**			3,316		
Other assets	**29,365**			28,791		
Total assets	**$ 297,766**			$ 295,306		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 189,311**	**$ 318**	**0.67%**	$ 195,597	$ 373	0.76%
Securitized debt obligations	**10,942**	**45**	**1.65**	14,948	69	1.85
Senior and subordinated notes	**12,692**	**82**	**2.58**	11,213	87	3.10
Other borrowings	**13,281**	**12**	**0.36**	9,257	86	3.72
Total interest-bearing liabilities	**$ 226,226**	**$ 457**	**0.81%**	$ 231,015	$ 615	1.06%
Non-interest bearing deposits	**21,339**			19,316		
Other liabilities	**8,622**			7,442		
Total liabilities	**256,187**			257,773		
Stockholders equity	**41,579**			37,533		
Total liabilities and stockholders equity	**$ 297,766**			$ 295,306		
Net interest income/spread		**$ 4,553**	**6.71%**		$ 4,001	5.90%
Impact of non-interest bearing funding			**0.12**			0.14
Net interest margin			**6.83%**			6.04%

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	Six Months Ended June 30,					
	2013			2012		
(Dollars in millions)	Average Balance	Interest Income/ Expense(2)(3)	Yield/ Rate	Average Balance	Interest Income/ Expense(2)(3)	Yield/ Rate
Assets:						
Interest-earning assets:						
Credit card:						
Domestic	**$ 77,547**	**$ 5,598**	**14.44%**	$ 62,950	$ 4,291	13.63%
International	**8,108**	**652**	**16.08**	8,248	631	15.30
Credit card	**85,655**	**6,250**	**14.59**	71,198	4,922	13.83
Consumer banking	**73,756**	**2,195**	**5.95**	67,184	2,215	6.59
Commercial banking	**39,058**	**756**	**3.87**	34,935	756	4.33
Other	**179**	**44**	**49.16**	155	21	27.10
Total loans, including loans held for sale	**198,648**	**9,245**	**9.31**	173,472	7,914	9.12
Investment securities(4)	**63,930**	**765**	**2.39**	53,757	633	2.36
Cash equivalents and other interest-earning assets	**6,430**	**51**	**1.59**	10,438	48	0.92
Total interest-earning assets	**$ 269,008**	**$ 10,061**	**7.48%**	$ 237,667	$ 8,595	7.23%
Cash and due from banks	**2,475**			7,141		
Allowance for loan and lease losses	**(4,778)**			(4,200)		
Premises and equipment, net	**3,733**			3,107		
Other assets	**29,856**			27,071		
Total assets	**$ 300,294**			$ 270,786		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 189,958**	**$ 644**	**0.68%**	$ 173,611	$ 684	0.79%
Securitized debt obligations	**11,348**	**101**	**1.78**	15,567	149	1.91
Senior and subordinated notes	**12,340**	**164**	**2.66**	10,740	175	3.26
Other borrowings	**15,544**	**29**	**0.37**	9,399	172	3.66
Total interest-bearing liabilities	**$ 229,190**	**$ 938**	**0.82%**	$ 209,317	$ 1,180	1.13%
Non-interest bearing deposits	**21,142**			18,975		
Other liabilities	**8,691**			7,236		
Total liabilities	**259,023**			235,528		
Stockholders equity	**41,271**			35,258		
Total liabilities and stockholders equity	**$ 300,294**			$ 270,786		
Net interest income/spread		**$ 9,123**	**6.66%**		$ 7,415	6.11%
Impact of non-interest bearing funding			**0.12**			0.13
Net interest margin			**6.78%**			6.24%

(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 $464 million and $944 million in the second quarter and first six months of 2013, respectively, and $369 million and $652 million in the second quarter and first six months of 2012, respectively.

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

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

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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 June 30, 2013 vs 2012			Six Months Ended June 30, 2013 vs 2012		
(Dollars in millions)	**Total Variance**	**Volume**	**Rate**	**Total Variance**	**Volume**	**Rate**
Interest income:						
Loans:						
Credit card	$ 433	$ 143	$ 290	$ 1,328	$ 1,043	$ 285
Consumer banking	(107)	(73)	(34)	(20)	422	(442)
Commercial banking	3	152	(149)		169	(169)
Other	10	3	7	23	4	19
Total loans, including loans held for sale	339	225	114	1,331	1,638	(307)
Investment securities	56	42	14	132	122	10
Cash equivalents and other interest-earning assets .	(1)	(81)	80	3	(47)	50
Total interest income	394	186	208	1,466	1,713	(247)
Interest expense:						
Deposits	(55)	(12)	(43)	(40)	138	(178)
Securitized debt obligations	(24)	(17)	(7)	(48)	(38)	(10)
Senior and subordinated notes	(5)	49	(54)	(11)	53	(64)
Other borrowings	(74)	178	(252)	(143)	200	(343)
Total interest expense	(158)	198	(356)	(242)	353	(595)
Net interest income	$ 552	$ (12)	$ 564	$ 1,708	$ 1,360	$ 348

(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 second quarter of 2013 increased by $552 million, or 14%, from the second quarter of 2012, driven by a 1% increase in average interest-earning assets and a 13% (79 basis point) expansion of the net interest margin to 6.83%.

Net interest income of $9.1 billion in the first six months of 2013 increased by $1.7 billion, or 23%, from the first six months of 2012, driven by a 13% increase in average interest-earning assets and a 9% (54 basis point) expansion of the net interest margin to 6.78%.

Average Interest-Earning Assets: The increase in average interest-earning assets in the second quarter and first six months of 2013 reflects the addition of loans and investment securities from the ING Direct acquisition 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 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. The run-off of home loans contributed to a reduction in average-interest earning assets in our Consumer Banking business in the second quarter of 2013, compared with the second quarter of 2012.

Net Interest Margin: The increase in our net interest margin in the second quarter and first six months of 2013 was primarily attributable to a reduction in our cost of funds, which was due in part to the redemption

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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 cost of funds also reflects the continued benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and a decline in deposit interest rates as a result of the continued overall low interest rate environment.

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 second quarter and first six months of 2013 and 2012.

Table 5: Non-Interest Income

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2013**	**2012**	**2013**	**2012**
Service charges and other customer-related fees	**$ 534**	$ 539	**$ 1,084**	$ 954
Interchange fees, net	**486**	408	**931**	736
Bargain purchase gain[1]				594
Net other-than-temporary impairment (OTTI)	**(4)**	(13)	**(29)**	(27)
Other non-interest income:				
Provision for mortgage representation and warranty losses[2] .	**4**	(26)	**14**	(42)
Net gains from the sale of investment securities	**1**	30	**3**	41
Net fair value gains (losses) on free-standing derivatives[3]	**2**	38	**(3)**	(48)
Other	**62**	78	**66**	367
Other non-interest income	**69**	120	**80**	318
Total non-interest income	**$ 1,085**	$ 1,054	**$ 2,066**	$ 2,575

(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 $183 million and $280 million in the second quarter and first six months of 2013, respectively, and $180 million and $349 million in the second quarter and first six months of 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 $6 million and $9 million as of June 30, 2013 and December 31, 2012, respectively. See Note 9 Derivative Instruments and Hedging Activities for additional information.

Non-interest income of $1.1 billion in the second quarter of 2013 increased by $31 million, or 3%, from non-interest income of $1.1 billion in the second quarter of 2012. The increase in non-interest income was primarily attributable to an increase in interchange fees resulting from purchase volume growth, due in part to the 2012 U.S. card acquisition, and a reduction in the provision for mortgage representation and warranty losses from continuing operations recognized in non-interest income. The favorable impact of these items was partially offset by a reduction in gains on the sale of investment securities and fair value gains related to free-standing derivatives.

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Non-interest income of $2.1 billion in the first six months of 2013 decreased by $509 million, or 20%, from non-interest income of $2.6 billion in the first six months of 2012. The decrease in non-interest income reflected the combined impact of the absence of both the bargain purchase gain of $594 million recognized at acquisition of ING Direct in the first quarter of 2012 and income of $162 million from the sale of Visa stock shares in the first quarter of 2012. The impact of these items was partially offset by the favorable impact of increased fees from purchase volume growth, a reduction in the provision for mortgage representation and warranty losses recognized in non-interest income and a reduction in fair value losses on free-standing derivatives.

We recorded net OTTI losses of $4 million and $29 million in the second quarter and first six months of 2013, respectively, compared with $13 million and $27 million in the second quarter and first six months of 2012, respectively. The OTTI losses in each period were attributable to deterioration in the credit performance of loans underlying certain non-agency mortgage backed securities. 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 $762 million and $1.6 billion in the second quarter and first six months of 2013, respectively, compared with $1.7 billion and $2.3 billion in the second quarter and first six months of 2012, respectively. The decrease in each period was primarily driven by the absence of the provision for credit losses of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for credit card loans acquired in the 2012 U.S. card acquisition, the impact of which was partially offset higher provision expense due to 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 second quarter and first six months of 2013 and 2012.

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Table 6: Non-Interest Expense

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Salaries and associate benefits	**$ 1,104**	$ 971	**$ 2,184**	$ 1,835
Occupancy and equipment	**356**	323	**706**	593
Marketing	**330**	334	**647**	655
Professional services	**329**	313	**636**	606
Communications and data processing	**233**	203	**443**	375
Amortization of intangibles[1]	**167**	157	**344**	219
Acquisition-related	**50**	133	**96**	219
Other non-interest expense:				
Collections	**119**	141	**248**	278
Fraud losses	**53**	37	**105**	77
Bankcard, regulatory and other fee assessments	**142**	137	**280**	247
Other	**176**	393	**398**	542
Other non-interest expense	**490**	708	**1,031**	1,144
Total non-interest expense	**$ 3,059**	$ 3,142	**$ 6,087**	$ 5,646

(1) Includes PCCR intangible amortization of $110 million and $226 million in the second quarter and first six months of 2013, respectively, and $88 million and $92 million in the second quarter and first six months of 2012, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $43 million and $87 million in the second quarter and first six months of 2013, respectively, and $51 million and $97 million in the second quarter and first six months of 2012, respectively.

Non-interest expense of $3.1 billion in the second quarter of 2013 decreased by $83 million, or 3%, from the second quarter of 2012. The decrease in non-interest expense reflected reduced acquisition-related costs, coupled with the absence of the unfavorable impact of charges related to certain other items recorded in the second quarter of 2012, including civil penalties of $60 million attributable to regulatory settlements associated with cross-selling certain other products to credit card customers in our Domestic Card business and legal costs of $98 million related to interchange and other litigation activity during the quarter. The decrease in non-interest expense was offset by 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.

Non-interest expense of $6.1 billion in the first six months of 2013 increased by $441 million, or 8%, from the first six months 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 and the absence of civil penalties of $60 million attributable to regulatory settlements associated with cross-selling certain other products to credit card customers in our Domestic Card business and legal costs of $98 million related to interchange and other litigation activity, both of which were recorded in the first six months of 2012.

Income Taxes

We recorded an income tax provision on income from continuing operations of $581 million (32.0% effective income tax rate) in the second quarter of 2013, compared with an income tax provision of $43 million (18.2% effective income tax rate) in the second quarter of 2012. The increase in our effective tax rate in the second quarter of 2013 from the second quarter of 2012 was primarily due to the relative reduction of benefits from tax credits and tax-exempt income and the difference in discrete tax expense recorded in each period. We recorded a net discrete tax expense of $7 million for state law changes and the resolution of certain tax issues and audits in

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the second quarter of 2013. In comparison, we recorded $32 million of discrete tax benefits for changes in our state tax position resulting from the 2012 U.S. card acquisition and the resolution of certain tax issues and audits in the second quarter of 2012.

We recorded an income tax provision of $1.1 billion (31.1% effective income tax rate) in the first six months of 2013, compared with an income tax provision of $396 million (18.9% effective income tax rate) in the first six months of 2012. The increase in our effective tax rate in the first six months of 2013 from the first six months of 2012 was primarily attributable to the absence of discrete tax benefits of $211 million recorded in the first quarter of 2012 for the non-taxable bargain purchase gain of $594 million related to the acquisition of ING Direct, a deferred tax benefit for changes in our state tax position resulting from the 2012 U.S. card acquisition and the resolution of certain tax issues and audits. In comparison, we recorded $1 million of discrete tax expense in the first six months of 2013.

Our effective income tax rate, excluding the impact of the discrete tax items discussed above, was 31.5% in both the second quarter of 2013 and 2012. Our effective income tax rate, excluding the impact of the discrete tax items discussed above, was 31.1% and 28.9% in the first six months of 2013 and 2012, respectively. The increase in the effective tax rate was primarily due to higher pre-tax earnings recorded in the first six months of 2013 over the first six months of 2012, which diluted the relative tax benefit of 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.

Loss from Discontinued Operations, Net of Tax

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

We recorded a loss from discontinued operations, net of tax, of $119 million and $197 million in the second quarter and first six months of 2013, respectively. In comparison, we recorded a loss from discontinued operations, net of tax, of $100 million and $202 million in the second quarter and first six months of 2012 , respectively. The variance in the loss from discontinued operations between the second quarter and first six months of 2013 and 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 $183 million and $280 million in the second quarter and first six months of 2013, respectively, compared with a total pre-tax provision of $180 million and $349 million in the second quarter and first six months of 2012, respectively. The portion of these amounts included in loss from discontinued operations totaled $187 million ($117 million, net of tax) and $294 million ($184 million, net of tax) in the second quarter and first six months of 2013, respectively, compared with $154 million ($97 million, net of tax) and $307 million ($194 million, net of tax) the second quarter and first six months of 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 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 second quarter and first six months 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 June 30, 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.

Credit Card Business

Our Credit Card business generated net income from continuing operations of $719 million and $1.4 billion in the second quarter and first six months of 2013, respectively, compared with a net loss from continuing operations of $297 million in the second quarter of 2012 and net income from continuing operations of $269 million for the first six months 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 the provision for credit losses, operating costs such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

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 contributed to a reduction in loans held for investment for Domestic Card, the accounting for held for sale loans has 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.

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Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended June 30, 2013	2012	Change	Six Months Ended June 30, 2013	2012	Change
Selected income statement data:						
Net interest income	**$ 2,804**	$ 2,350	**19%**	**$ 5,634**	$ 4,342	**30%**
Non-interest income	**832**	771	**8**	**1,653**	1,369	**21**
Total net revenue[1]	**3,636**	3,121	**17**	**7,287**	5,711	**28**
Provision for credit losses	**713**	1,711	**(58)**	**1,456**	2,169	**(33)**
Non-interest expense	**1,819**	1,863	**(2)**	**3,667**	3,131	**17**
Income from continuing operations before income taxes	**1,104**	(453)	**344**	**2,164**	411	**427**
Income tax provision	**385**	(156)	**347**	**759**	142	**435**
Income from continuing operations, net of tax	**$ 719**	$ (297)	**342%**	**$ 1,405**	$ 269	**422%**
Selected performance metrics:						
Average loans held for investment[2]	**$ 77,946**	$ 79,662	**(2)%**	**$ 80,435**	$ 71,048	**13%**
Average yield on loans held for investment[3]	**15.94%**	13.42%	**252bps**	**15.54%**	13.86%	**168bps**
Total net revenue margin[4]	**18.66**	15.67	**299**	**18.12**	16.08	**204**
Net charge-offs	**$ 850**	$ 622	**37%**	**$ 1,772**	$ 1,268	**40%**
Net charge-off rate[5]	**4.36%**	3.13%	**123bps**	**4.41%**	3.57%	**84bps**
Card loan premium amortization and other intangible accretion[6]	**$ 57**	$ 59	**(3)%**	**$ 114**	$ 59	**93%**
PCCR intangible amortization	**110**	88	**25**	**226**	92	**146**
Purchase volume[7]	**50,788**	45,228	**12**	**95,886**	79,726	**20**

(Dollars in millions)	June 30, 2013	December 31, 2012	Change
Selected period-end data:			
Loans held for investment[2]	**$ 78,310**	$ 91,755	**(15)%**
30+ days performing delinquency rate[8]	**3.13%**	3.61%	**(48)bps**
30+ days delinquency rate[9]	**3.22**	3.69	**(47)**
Nonperforming loan rate[10]	**0.12**	0.11	**1**
Allowance for loan and lease losses	**$ 3,349**	$ 3,979	**(16)%**
Allowance coverage ratio[11]	**4.28%**	4.34%	**(6)bps**

(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $192 million and $457 million in the second quarter and first six months of 2013, respectively, and by $311 million and $434 million in the second quarter and first six months of 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $197 million and $307 million as of June 30, 2013 and December 31, 2012, respectively.

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

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. Annualized interest income includes interest income on loans held for sale. Therefore, 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 152 and 124 basis points in the second quarter and first six months of 2013, respectively.

(4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Annualized interest income includes interest income on loans held for sale. Therefore, the transfer of the Best Buy loan portfolio to held for sale resulted in an increase in the net revenue margin for Total Card of 169 and 139 basis points in the second quarter

and first six months of 2013, respectively.

(5) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
(6) Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans accounted for based on contractual cash flows and the accretion of other intangibles intangible associated with the 2012 U.S. card acquisition.
(7) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
(8) 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.
(9) 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.
(10) 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.
(11) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

The completion of the 2012 U.S. card acquisition in May 2012 was the most significant driver of changes in the financial performance of our Credit Card business between the second quarter and first six months of 2013 versus the same prior year periods. Our Credit Card business results for the second quarter and first six months of 2013 reflect the full impact of the addition of loans from the acquisition, while the same prior year periods in 2012 reflect only a partial period impact of loans acquired from 2012 U.S. card acquisition. In addition, our Credit Card business results for the second quarter and first six months of 2013 reflect the absence of charges recorded in the second quarter of 2012 to establish reserves for certain loans acquired in the 2012 U.S. card acquisition, which consisted of a provision for credit losses of $1.2 billion and a finance charge and fee contra-revenue expense of $174 million.

Other key factors affecting the results of our Credit Card business for the second quarter and first six months of 2013, compared with the second quarter and first six months of 2012, and changes in financial condition and credit performance between June 30, 2013 and December 31, 2012 include the following:

Net Interest Income: Net interest income increased by $454 million, or 19%, in the second quarter of 2013 to $2.8 billion and by $1.3 billion, or 30%, in the first six months of 2013 to $5.6 billion. The increase in net interest income for the first six months of 2013 is primarily driven by the significant increase in average loans held for investment resulting from the U.S. card acquisition of receivables in the second quarter of 2012. The increase for each period also was due in part to the absence of the charge recorded in the second quarter of 2012 to establish the finance charge and fee reserve for the acquired loans.

Non-Interest Income: Non-interest income increased by $61 million, or 8%, in the second quarter of 2013 to $832 million and by $284 million, or 21% in the first six months of 2013 to $1.7 billion. The increase was primarily driven by higher net interchange fees generated from growth in purchase volume due in part to the 2012 U.S. card acquisition. Purchase volume increased by $5.6 billion, or 12%, in the second quarter of 2013 and by $16.2 billion, or 20%, in the first six months of 2013, attributable to both the addition of customer accounts associated with the 2012 U.S. card acquisition and higher purchase volume in our legacy card business. Non-interest income was also higher due to increased customer-related fees from the addition of acquired credit card accounts and the absence of charges incurred in the comparable prior year periods for expected refunds to customers affected by certain cross-sell sale practices in our Domestic Card business. Non-interest income also includes a loss of $10 million recognized in the second quarter of 2013 to adjust the carrying value of the Best Buy loan portfolio to fair value.

Provision for Credit Losses: The provision for credit losses related to our Credit Card business decreased to $713 million and $1.5 billion in the second quarter and first six months of 2013, respectively, from $1.7 billion and $2.2 billion in the second quarter and first six months of 2012, respectively. The decrease was primarily driven by the absence of the provision for credit losses of $1.2 billion recorded in the second quarter of 2012 to establish an allowance for credit card loans acquired in the 2012 U.S. card acquisition. This impact was partially offset by an increase in the provision related to higher net charge-offs in the second quarter and first six months of 2013, largely attributable to the addition of loans from the 2012 U.S. card acquisition.

Non-Interest Expense: Non-interest expense decreased by $44 million, or 2%, in the second quarter of 2013 to $1.8 billion and increased by $536 million, or 17%, in the first six months of 2013 to $3.7 billion. The decrease in the second quarter of 2013 reflected the absence of charges for regulatory fines related to cross-sell activities in the Domestic Card business of $60 million and net litigation reserves to cover interchange and other settlements of $98 million recorded in the second quarter of 2012, which was partially offset by a full quarter of operating expenses in the second quarter of 2013 related to operations of the 2012 U.S. card acquisition. The increase in the first six months of 2013 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 acquisition, including Purchased Credit Card Relationships (PCCR) intangible amortization expense of $226 million in the first six months of 2013, compared with $92 million in the first six months of 2012.

Loans Held for Investment: Period-end loans held for investment in our Credit Card business decreased by $13.5 billion, or 15%, in the first six months of 2013 to $78.3 billion as of June 30, 2013, from $91.8 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy loan portfolio of approximately $7 billion to the held for sale category in the first quarter of 2013. Excluding the transfer of the Best Buy loan portfolio to held for sale, period-end loans held for investment decreased due to typical seasonally lower purchase volumes and higher pay downs in the first half of the year, as well as the expected continued run-off of our installment loan portfolio and 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 4.36% and 4.41% in the second quarter and first six months of 2013, respectively, from 3.13% and 3.57% in the second quarter and first six months of 2012, respectively. The 30+ day delinquency rate decreased to 3.22% as of June 30, 2013, from 3.69% as of December 31, 2012. The increase in reported net charge-off rates in the second quarter and first six months of 2013 was largely due to the inclusion in the second quarter and first six months of 2012 of the addition of acquired loans from the 2012 U.S. card acquisition in the denominator in calculating our reported net charge-off rates, coupled with a lag in initial charge-offs related to this portfolio because we typically do not charge-off credit card loans until the account is 180 days past due.

Domestic Card Business

Domestic Card generated net income from continuing operations of $638 million and $1.3 billion in the second quarter and first six months of 2013, respectively, compared with a net loss from continuing operations of $264 million in the second quarter of 2012 and net income from continuing operations of $251 million in the first six months of 2012. Domestic Card accounted for 90% of total net revenues for our Credit Card business in both the second quarter and first six months of 2013, compared with 91% and 88% in the second quarter and first six months of 2012, respectively. Income attributable to Domestic Card represented 89% and 91% of income for our Credit Card business in the second quarter and first six months of 2013, respectively, compared with 89% and 93% in the second quarter and first six months of 2012, respectively.

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

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Table 7.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended June 30, 2013	2012	Change	Six Months Ended June 30, 2013	2012	Change
Selected income statement data:						
Net interest income	**$ 2,536**	$ 2,118	**20%**	**$ 5,092**	$ 3,831	**33%**
Non-interest income	**737**	708	**4**	**1,461**	1,205	**21**
Total net revenue	**3,273**	2,826	**16**	**6,553**	5,036	**30**
Provision for credit losses	**647**	1,600	**(60)**	**1,294**	1,961	**(34)**
Non-interest expense	**1,635**	1,634	**	**3,268**	2,686	**22**
Income from continuing operations before income taxes	**991**	(408)	**343**	**1,991**	389	**412**
Income tax provision	**353**	(144)	**345**	**709**	138	**414**
Income from continuing operations, net of tax	**$ 638**	$ (264)	**342%**	**$ 1,282**	$ 251	**411%**
Selected performance metrics:						
Average loans held for investment[1]	**$ 69,966**	$ 71,468	**(2)%**	**$ 72,327**	$ 62,800	**15%**
Average yield on loans held for investment[2]	**15.91%**	13.33%	**258bps**	**15.48%**	13.67%	**181bps**
Total net revenue margin[3]	**18.71**	15.82	**289**	**18.12**	16.04	**208**
Net charge-offs	**$ 749**	$ 510	**47%**	**$ 1,576**	$ 1,041	**51%**
Net charge-off rate[4]	**4.28%**	2.86%	**142bps**	**4.36%**	3.32%	**104bps**
Card loan premium amortization and other intangible accretion[5]	**$ 57**	$ 59	**(3)%**	**$ 114**	$ 59	**93%**
PCCR intangible amortization	**$ 110**	$ 88	**25**	**$ 226**	$ 92	**146**
Purchase volume[6]	**47,273**	41,807	**13**	**89,104**	73,224	**22**

(Dollars in millions)	June 30, 2013	December 31, 2012	Change
Selected period-end data:			
Loans held for investment[1]	**$ 70,490**	$ 83,141	**(15)%**
30+ days delinquency rate[7]	**3.05%**	3.61%	**(56)bps**
Allowance for loan and lease losses	**$ 2,955**	$ 3,526	**(16)%**

** 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. Annualized interest income includes interest income on loans held for sale. Therefore, the transfer of the Best Buy loan portfolio to held for sale resulted in an increase in the average yield for Domestic Card of 168 and 136 basis points in the second quarter and first six months of 2013, respectively.

(3) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Annualized interest income includes interest income on loans held for sale. Therefore, the transfer of the Best Buy loan portfolio to held for sale resulted in an increase in the net revenue margin for Domestic Card of 188 and 154 basis points in the second quarter and first six months of 2013, respectively.

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

(6)

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

(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.

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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 second quarter of 2013 from the second quarter of 2012 reflected the impact of the following items: (i) an increase in net interest income and non-interest income, primarily attributable to higher average loan yields and higher net interchange fees generated from purchase volume growth; (ii) the absence of the $1.2 billion provision for credit losses recorded in the second quarter of 2012 established as an allowance for the credit card receivables acquired in the 2012 U.S. acquisition; (iii) an increase in non-interest income due to the absence of charges for expected refunds to customers affected by certain cross-sell sale practices in our Domestic Card business recorded in the second quarter of 2012; and (iv) relatively flat non-interest expense reflecting the absence of charges for regulatory fines related to cross-sell activities in the Domestic Card business and net litigation reserves to cover interchange and other settlements recorded in the second quarter of 2012, which were offset by increased operating expenses related to the 2012 U.S. card acquisition.

International Card Business

International Card generated net income from continuing operations of $81 million and $123 million in the second quarter and first six months of 2013, respectively, compared with a net loss from continuing operations of $33 million in the second quarter of 2012 and net income from continuing operations of $18 million in the first six months of 2012. International Card accounted for 10% of total net revenues for our Credit Card business in both the second quarter and first six months of 2013, compared with 9% and 12% in the second quarter and first six months of 2012, respectively. Income attributable to International Card represented 11% and 9% of income for our Credit Card business in the second quarter and first six months of 2013, respectively, compared with 11% of the net loss in the second quarter of 2012 and 7% of the net income in the first six months 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 June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Selected income statement data:						
Net interest income	**$ 268**	$ 232	**16%**	**$ 542**	$ 511	**6%**
Non-interest income	**95**	63	**51**	**192**	164	**17**
Total net revenue	**363**	295	**23**	**734**	675	**9**
Provision for credit losses	**66**	111	**(41)**	**162**	208	**(22)**
Non-interest expense	**184**	229	**(20)**	**399**	445	**(10)**
Income from continuing operations before income taxes	**113**	(45)	**351**	**173**	22	**686**
Income tax provision	**32**	(12)	**367**	**50**	4	**1,150**
Income from continuing operations, net of tax	**$ 81**	$ (33)	**345%**	**$ 123**	$ 18	**583%**
Selected performance metrics:						
Average loans held for investment(1)	**$ 7,980**	$ 8,194	**(3)%**	**$ 8,108**	$ 8,248	**(2)%**
Average yield on loans held for investment(2)	**16.19%**	14.18%	**201bps**	**16.08%**	15.29%	**79bps**
Total net revenue margin(3)	**18.20**	14.40	**380**	**18.11**	16.37	**174**
Net charge-offs	**$ 101**	$ 112	**(10)%**	**$ 196**	$ 227	**(14)%**
Net charge-off rate(4)	**5.08%**	5.49%	**(41)bps**	**4.83%**	5.51%	**(68)bps**
Purchase volume(5)	**$ 3,515**	$ 3,421	**3%**	**$ 6,782**	$ 6,502	**4%**

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(Dollars in millions)	June 30, 2013	December 31, 2012	Change
Selected period-end data:			
Loans held for investment[1]	**$ 7,820**	$ 8,614	**(9)%**
30+ days performing delinquency rate[6]	**3.84%**	3.58%	**26bps**
30+ days delinquency rate[7]	**4.79**	4.49	**30**
Nonperforming loan rate[8]	**1.20**	1.16	**4**
Allowance for loan and lease losses	**$ 394**	$ 453	**(13)%**

(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 include international card loans that are generally 90 or 120 days delinquent.

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

Consumer Banking Business

Our Consumer Banking business generated net income from continuing operations of $444 million and $827 million in the second quarter and first six months of 2013, respectively, compared with net income from continuing operations of $438 million and $662 million in the second quarter and first six months of 2012, respectively. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing 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.

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

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Table 8: Consumer Banking Business Results

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Selected income statement data:						
Net interest income	**$ 1,478**	$ 1,496	**(1)%**	**$ 2,956**	$ 2,784	**6%**
Non-interest income	**189**	185	**2**	**370**	361	**2**
Total net revenue	**1,667**	1,681	**(1)**	**3,326**	3,145	**6**
Provision for credit losses	**67**	44	**52**	**242**	218	**11**
Non-interest expense	**910**	959	**(5)**	**1,800**	1,902	**(5)**
Income from continuing operations before income taxes	**690**	678	**2**	**1,284**	1,025	**25**
Income tax provision	**246**	240	**3**	**457**	363	**26**
Income from continuing operations, net of tax	**$ 444**	$ 438	**1%**	**$ 827**	$ 662	**25%**

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Selected performance metrics:						
Average loans held for investment:[1]						
Auto	**$ 28,677**	$ 24,487	**17%**	**$ 28,080**	$ 23,535	**19%**
Home loan	**40,532**	48,966	**(17)**	**41,771**	39,234	**6**
Retail banking	**3,721**	4,153	**(10)**	**3,753**	4,166	**(10)**
Total consumer banking	**$ 72,930**	$ 77,606	**(6)%**	**$ 73,604**	$ 66,935	**10%**
Average yield on loans held for investment[2]	**5.99%**	6.17%	**(18)bps**	**5.96%**	6.61%	**(65)bps**
Average deposits	**$ 170,733**	$ 174,416	**(2)%**	**$ 170,910**	$ 152,166	**12%**
Average deposit interest rate	**0.64%**	0.70%	**(6)bps**	**0.64%**	0.72%	**(8)bps**
Core deposit intangible amortization	**$ 35**	$ 42	**(17)%**	**$ 72**	$ 79	**(9)%**
Net charge-offs	**110**	93	**18**	**253**	201	**26**
Net charge-off rate[3]	**0.60%**	0.48%	**12bps**	**0.69%**	0.60%	**9bps**
Net charge-off rate (excluding acquired loans)[4]	**1.08**	1.02	**6**	**1.27**	1.15	**12**
Automobile loan originations	**$ 4,525**	$ 4,306	**5%**	**$ 8,314**	$ 8,576	**(3)%**

(Dollars in millions)	**June 30, 2013**	**December 31, 2012**	**Change**
Selected period-end data:			
Loans held for investment:[1]			
Auto	**$ 29,369**	$ 27,123	**8%**
Home loan	**39,163**	44,100	**(11)**
Retail banking	**3,686**	3,904	**(6)**
Total consumer banking	**$ 72,218**	$ 75,127	**(4)%**
30+ days performing delinquency rate[5]	**2.55%**	2.65%	**(10)bps**
30+ days performing delinquency rate (excluding acquired loans)[4]	**4.56**	5.14	**(58)**
30+ days delinquency rate[6]	**3.15**	3.34	**(19)**

30+ days delinquency rate (excluding acquired loans)[4]	**5.63**	6.49	**(86)**

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(Dollars in millions)	June 30, 2013	December 31, 2012	Change
Nonperforming loans rate[7]	**0.78**	0.85	**(7)**
Nonperforming loans rate (excluding acquired loans)[4]	**1.40**	1.66	**(26)**
Nonperforming asset rate[8]	**0.84**	0.91	**(7)**
Nonperforming asset rate (excluding acquired loans)[4]	**1.51**	1.76	**(25)**
Allowance for loan and lease losses	**$ 702**	$ 711	**(1)%**
Allowance coverage ratio[9]	**0.97%**	0.95%	**2bps**
Deposits	**$ 169,789**	$ 172,396	**(2)%**
Loans serviced for others	**14,313**	15,333	**(7)**

(1) Loans held for investment includes loans acquired in the ING Direct and CCB acquisitions. The carrying value of consumer banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $31.8 billion and $36.5 billion as of June 30, 2013 and December 31, 2012, respectively. The average balance of consumer banking loans held for investment, excluding the carrying value of acquired loans, was $40.2 billion and $36.2 billion in the second quarter of 2013 and 2012, respectively and $39.7 billion and $35.0 billion in the first six months 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 second quarter and first six months of 2013, compared with the second quarter and first six months of 2012, and changes in financial condition and credit performance between June 30, 2013 and December 31, 2012 include the following:

Net Interest Income: Net interest income decreased by $18 million, or 1%, in the second quarter of 2013 to $1.5 billion and increased by $172 million, or 6%, in the first six months of 2013 to $3.0 billion. The modest decrease in net interest income in the second quarter of 2013 was largely attributable to a decrease in average loans due to the expected run-off of certain acquired home loans. The increase in net interest income in the first six months of 2013 was primarily attributable to a significant increase in average loans held for investment and consumer deposits due to 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 and deposit 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 $4 million, or 2%, in the second quarter of 2013 to $189 million and increased by $9 million, or 2%, in the first six months of 2013 to $370 million, largely attributable to fees associated with the addition of the ING Direct business.

Provision for Credit Losses: The provision for credit losses increased by $23 million and $24 million in the second quarter and first six months of 2013, respectively, reflecting modestly higher auto loan charge-offs attributable to the continued high volume of auto loan originations. 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 $49 million, or 5%, in the second quarter of 2013 to $910 million and decreased by $102 million, or 5%, in the first six months of 2013 to $1.8 billion. The decrease was largely due to the absence of ING Direct acquisition-related costs incurred in the first six months 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 $2.9 billion, or 4%, in the first six months of 2013, to $72.2 billion as of June 30, 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.

Deposits: Period-end deposits in our Consumer Banking business declined by $2.6 billion, or 2%, in the first six months of 2013 to $169.8 billion as of June 30, 2013, reflecting our disciplined pricing and scaling back of deposit growth in the current environment of relatively low overall loan growth.

Charge-off and Delinquency Statistics: The reported net charge-off rate of 0.60% and 0.69% in the second quarter and first six months of 2013, respectively, increased from 0.48% and 0.60% in the second quarter and first six months of 2012, respectively. However, the 30+ day delinquency rate decreased to 3.15% as of June 30, 2013, from 3.34% as of December 31, 2012. The increase in the net charge-off rates reflect moderately higher auto loan charge-offs, partially offset by improved home loan performance. 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 $190 million and $393 million in the second quarter and first six months of 2013, respectively, compared with net income from continuing operations of $228 million and $438 million in the second quarter and first six months of 2012, respectively. The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees. Because we have some affordable housing tax-related investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenditures.

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

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Table 9: Commercial Banking Business Results

(Dollars in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Change	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012	Change
Selected income statement data:						
Net interest income	**$ 457**	$ 427	**7%**	**$ 911**	$ 858	**6%**
Non-interest income	**93**	82	**13**	**177**	167	**6**
Total net revenue	**550**	509	**8**	**1,088**	1,025	**6**
Provision for credit losses	**(14)**	(94)	**85**	**(49)**	(163)	**70**
Non-interest expense	**269**	251	**7**	**527**	512	**3**
Income from continuing operations before income taxes	**295**	352	**(16)**	**610**	676	**(10)**
Income tax provision	**105**	124	**(15)**	**217**	238	**(9)**
Income from continuing operations, net of tax	**$ 190**	$ 228	**(17)%**	**$ 393**	$ 438	**(10)%**
Selected performance metrics:						
Average loans held for investment:[1]						
Commercial and multifamily real estate	**$ 18,084**	$ 15,838	**14%**	**$ 17,771**	$ 15,676	**13%**
Commercial and industrial	**20,332**	18,001	**13**	**20,142**	17,520	**15**
Total commercial lending	**38,416**	33,839	**14**	**37,913**	33,196	**14**
Small-ticket commercial real estate	**1,096**	1,388	**(21)**	**1,134**	1,434	**(21)**
Total commercial banking	**$ 39,512**	$ 35,227	**12%**	**$ 39,047**	$ 34,630	**13%**
Average yield on loans held for investment[2]	**3.84%**	4.27%	**(43)bps**	**3.87%**	4.37%	**(50)bps**
Average deposits	**$ 30,746**	$ 27,943	**10%**	**$ 30,542**	$ 27,756	**10%**
Average deposit interest rate	**0.26%**	0.33%	**(7)bps**	**0.27%**	0.35%	**(8)bps**
Core deposit intangible amortization	**$ 8**	$ 9	**(11)%**	**$ 15**	$ 18	**(17)%**
Net charge-offs	**4**	17	**(76)**	**11**	33	**(67)**
Net charge-off rate[3]	**0.04%**	0.19%	**(15)bps**	**0.06%**	0.19%	**(13)bps**

(Dollars in millions)	June 30, 2013	December 31, 2012	Change
Selected period-end data:			
Loans held for investment:			
Commercial and multifamily real estate	**$ 18,570**	$ 17,732	**5%**
Commercial and industrial	**21,170**	19,892	**6**
Total commercial lending	**39,740**	37,624	**6**
Small-ticket commercial real estate	**1,065**	1,196	**(11)**
Total commercial banking	**$ 40,805**	$ 38,820	**5%**
Nonperforming loans rate[4]	**0.60%**	0.73%	**(13)bps**
Nonperforming asset rate[5]	**0.62**	0.77	**(15)**

Allowance for loan and lease losses	**$ 338**	$ 433	**(22)%**
Allowance coverage ratio[6]	**0.83%**	1.12%	**(29)bps**
Deposits	**$ 30,869**	$ 29,866	**3%**

(1) Loans held for investment includes loans acquired in the ING Direct and CCB acquisitions. The carrying value of commercial banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $306 million and $359 million as of June 30, 2013 and December 31, 2012, respectively. The average balance of commercial banking loans held for investment, excluding the carrying value of acquired loans, was $39.2 billion and $34.8 billion in the second quarter of 2013 and 2012, respectively, and $38.7 billion and $34.2 billion in the first six months of 2013 and 2012, respectively.

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(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) 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.
(5) 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.
(6) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

Key factors affecting the results of our Commercial Banking business for the second quarter and first six months of 2013, compared with the second quarter and first six months of 2012, and changes in financial condition and credit performance between June 30, 2013 and December 31, 2012 include the following:

Net Interest Income: Net interest income increased by $30 million, or 7%, in the second quarter of 2013 to $457 million and by $53 million, or 6%, in the first six months of 2013 to $911 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 increased by $11 million, or 13%, in the second quarter of 2013 to $93 million and by $10 million, or 6%, in the first six months of 2013 to $177 million, driven by increased investment banking activities and increases in other customer fees.

Provision for Credit Losses: The Commercial Banking business recorded a negative provision for credit losses of $14 million and $49 million in the second quarter and first six months of 2013, respectively, compared with a negative provision of $94 million and $163 million in the second quarter and first six months of 2012, respectively. As the improvement in the credit performance of our commercial loan portfolio has somewhat stabilized, we have begun to reduce the amount of the combined allowance and unfunded lending commitments reserve releases. We reduced the combined allowance and unfunded lending commitments reserve by $20 million and $60 million in the second quarter and first six months of 2013, respectively, compared with $110 million and $195 million in the second quarter and first six months of 2012, respectively. As discussed above under Critical Accounting Policies and Estimates Allowance of Loan and Lease Losses and Reserve for Unfunded Lending Commitments-Commercial Loans, we changed our process for estimating the allowance and reserve for unfunded lending commitments for our commercial loan portfolio in the first quarter of 2013, the impact of which resulted in net increase in the combined allowance and reserve for unfunded lending commitments of $37 million as of March 31, 2013 and a corresponding charge to the provision for credit losses.

Non-Interest Expense: Non-interest expense increased by $18 million, or 7%, in the second quarter of 2013 to $269 million and by $15 million, or 3%, in the first six months of 2013 to $527 million, driven by investments in business growth and infrastructure enhancements.

Loans Held for Investment: Period-end loans held for investment in our Commercial Banking business increased by $2.0 billion, or 5%, in the first six months of 2013, to $40.8 billion as of June 30, 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 $1.0 billion, or 3%, to $30.9 billion as of June 30, 2013, from $29.9 billion as of December 31, 2012, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

Charge-off Statistics: The net charge-off rate decreased to 0.04% and 0.06% in the second quarter and first six months of 2013, respectively, from 0.19% in both the second quarter and first six months of 2012. The nonperforming loan rate decreased to 0.60% as of

June 30, 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.

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Other Category

Net loss from continuing operations recorded in Other was $117 million and $245 million in the second quarter and first six months of 2013, respectively, compared with a net loss from continuing operations of $176 million in the second quarter of 2012 and net income from continuing operations of $329 million in the first six months of 2012. Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management. Gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains and losses on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as acquisition and restructuring charges; a portion of the provision for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Table 10: Other Results

	Three Months Ended June 30,			Six Months Ended June 30,		
(Dollars in millions)	**2013**	**2012**	**Change**	**2013**	**2012**	**Change**
Selected income statement data:						
Net interest income (expense)	**$ (186)**	$ (272)	**32%**	**$ (378)**	$ (569)	**34%**
Non-interest income	**(29)**	16	**(281)**	**(134)**	678	**(120)**
Total net revenue	**(215)**	(256)	**16**	**(512)**	109	**(570)**
Provision for credit losses	**(4)**	16	**(125)**	**(2)**	26	**(108)**
Non-interest expense	**61**	69	**(12)**	**93**	101	**(8)**
Income from continuing operations before income taxes	**(272)**	(341)	**20**	**(603)**	(18)	**(3,250)**
Income tax benefit	**(155)**	(165)	**6**	**(358)**	(347)	**(3)**
Income (loss) from continuing operations, net of tax	**$ (117)**	$ (176)	**34%**	**$ (245)**	$ 329	**(174)%**

The shift in the Other category to a net loss from continuing operations of $245 million in the first six months of 2013 from net income from continuing operations of $329 million in the first six months 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.

CONSOLIDATED BALANCE SHEET ANALYSIS

Total assets of $296.5 billion as of June 30, 2013 decreased by $16.4 billion, or 5%, from $312.9 billion as of December 31, 2012. Total liabilities of $255.5 billion as of June 30, 2013, decreased by $16.9 billion, or 6%, from $272.4 billion as of December 31, 2012. Stockholders equity increased by $542 million to $41.0 billion as of June 30, 2013. The increase in stockholders equity was primarily attributable to our net income of $2.2 billion for the first six months of 2013, which was partially offset by an other comprehensive loss of $1.5 billion, largely attributable to an increase in interest rates in the second quarter of 2013 that reduced the fair value of our investment securities available for sale and resulted in net unrealized losses.

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Following is a discussion of material changes in the major components of our assets and liabilities during the first six months 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 June 30, 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 $62.6 billion and $64.0 billion as of June 30, 2013 and December 31, 2012, respectively, 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 guaranteed by the U.S. government or agencies of the U.S. government represented 77% of our total investment securities available for sale as of both June 30, 2013 and December 31, 2012.

We did not have any investment securities designated as held to maturity as of June 30, 2013. We had $9 million of investment securities designated as held to maturity as of December 31, 2012. These investment securities are included in other assets in our condensed consolidated balance sheets.

Table 11 presents the amortized cost and fair value for the major categories of our portfolio of investment securities available for sale as of June 30, 2013 and December 31, 2012.

Table 11: Investment Securities Available for Sale

	June 30, 2013		December 31, 2012	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
U.S. Treasury debt obligations	**$ 838**	**$ 840**	$ 1,548	$ 1,552
U.S. agency debt obligations[1]	**101**	**101**	301	302
Corporate debt securities guaranteed by U.S. government agencies[2]	**1,240**	**1,204**	1,003	1,012
Residential mortgage-backed securities (RMBS):				
Agency[3]	**40,798**	**39,863**	39,408	40,002
Non-agency	**3,393**	**3,684**	3,607	3,871
Total RMBS	**44,191**	**43,547**	43,015	43,873
Commercial mortgage-backed securities (CMBS):				
Agency[3]	**5,984**	**5,886**	6,045	6,144
Non-agency	**1,713**	**1,666**	1,425	1,485
Total CMBS	**7,697**	**7,552**	7,470	7,629
Other asset-backed securities[4]	**7,405**	**7,414**	8,393	8,458
Other securities[5]	**1,957**	**1,944**	1,120	1,153
Total securities available for sale	**$ 63,429**	**$ 62,602**	$ 62,850	$ 63,979

(1) Includes debt securities issued by Fannie Mae and Freddie Mac with an amortized cost of $100 million and $300 million as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $100 million and $302 million as of June 30, 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.

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(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 $26.0 billion and $22.9 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $25.2 billion and $23.2 billion as of June 30, 2013 and December 31, 2012, respectively. Freddie Mac MBS had an amortized cost of $12.5 billion and $12.6 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $12.3 billion and $12.9 billion as of June 30, 2013 and December 31, 2012, respectively. Ginnie Mae MBS had an amortized cost of $8.0 billion and $9.9 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $7.9 billion and $10.0 billion as of June 30, 2013 and December 31, 2012, respectively.

(4) The other asset-backed securities portfolio was collateralized by approximately 66% credit card loans, 19% auto dealer floor plan inventory loans and leases, 7% auto loans, 6% equipment loans, 1% student loans and 1% of other assets as of June 30, 2013. In comparison, the distribution was approximately 64% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 5% equipment loans, 1% student loans, 2% commercial paper and 4% of other assets as of December 31, 2012. Approximately 87% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of June 30, 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).

The amortized cost of our portfolio of investment securities available for sale increased by $579 million in the first six months of 2013 to $63.4 billion as of June 30, 2013. The increase was attributable to security purchases of $10.5 billion, which were largely offset by pay downs and maturities of $8.5 billion and sales of $1.3 billion.

Unrealized gains and losses on 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 $717 million and gross unrealized losses of $1.5 billion on investment securities available for sale as of June 30, 2013, resulting in a net unrealized loss position of $827 million as of June 30, 2013. In comparison, we had gross unrealized gains of $1.2 billion and gross unrealized losses of $120 million on securities available for sale as of December 31, 2012, resulting in a net unrealized gain position of $1.1 billion as of December 31, 2012. The shift of $2.0 billion to a net unrealized loss position as of June 30, 2013, from a net unrealized gain position as of December 31, 2012 was driven primarily by the sharp rise in interest rates in the second quarter of 2013, which reduced the fair value of certain securities. Of the $1.5 billion in gross unrealized losses as of June 30, 2013, $31 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 both June 30, 2013 and December 31, 2012, while approximately 5% and 6% were below investment grade as of June 30, 2013 and December 31, 2012, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch).

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Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other asset-backed securities and other securities in our portfolio as of June 30, 2013 and December 31, 2012.

Table 12: Non-Agency Investment Securities Credit Ratings

	June 30, 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	**$ 3,393**	**%**	**5%**	**95%**	$ 3,607	%	5%	95%
Non-agency CMBS	**1,713**	**99**	**1**		1,425	97	3	
Other asset-backed securities	**7,405**	**87**	**11**	**2**	8,393	82	17	1
Other securities[1]	**1,957**	**40**	**53**	**7**	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 June 30, 2013 and December 31, 2012.

Table 13: Net Loans Held for Investment

	June 30, 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	**$ 78,310**	**$ 3,349**	**$ 74,961**	$ 91,755	$ 3,979	$ 87,776
Consumer Banking	**72,218**	**702**	**71,516**	75,127	711	74,416
Commercial Banking	**40,805**	**338**	**40,467**	38,820	433	38,387
Other	**179**	**18**	**161**	187	33	154
Total	**$ 191,512**	**$ 4,407**	**$ 187,105**	$ 205,889	$ 5,156	$ 200,733

Period-end loans held for investment decreased by $14.4 billion, or 7%, in the first six months of 2013, to $191.5 billion as of June 30, 2013, from $205.9 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy loan portfolio of approximately $7 billion to the held-for-sale category in the first quarter of 2013. Excluding the transfer of the Best Buy loan portfolio to held for sale, period-end loans held for investment decreased due to the continued expected run-off of home loans in our Consumer Banking business, certain other credit card loans acquired in the 2012 U.S. card acquisition, and installment loans in our Credit Card business. The pay downs and run-off of card balances were partially offset by increased purchased volume in our Credit Card business, 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.

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Loans Held for Sale

Loans held for sale, which are carried at lower of cost or fair value, increased to $6.2 billion as of June 30, 2013, from $201 million as of December 31, 2012. The increase was primarily 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 loan portfolio had outstanding loan balances of $6.1 billion as of June 30, 2013.

Customer Deposits

Our customer deposits have become our largest source of funding for our operations and asset growth, providing a sizable and consistent source of low-cost funds. Total customer deposits decreased by $2.6 billion to $209.9 billion as of June 30, 2013, from $212.5 billion as of December 31, 2012, reflecting our disciplined pricing and scaling back of deposit growth in the current environment of relatively low overall loan growth. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in Liquidity Risk Profile.

Securitized Debt Obligations

Borrowings due to securitization investors decreased by $567 million during the first six months of 2013 to $10.8 billion as of June 30, 2013, from $11.4 billion as of December 31, 2012. The decrease primarily reflected planned reductions of the long-term debt in our credit card securitization trusts. These reductions were partially offset by the execution of $1.5 billion of credit card securitization transactions during the six months ended June 30, 2013. On February 1, 2013, Capital One Multi-Asset Execution Trust issued $750 million of 3-year fixed-rate notes from our credit card securitization trust. On May 14, 2013, Capital One Multi-Asset Execution Trust issued $700 million of 3-year floating 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 Federal Home Loan Bank (FHLB) advances, but excluding securitized debt obligations, totaled $25.4 billion as of June 30, 2013, of which $12.0 billion represented short-term borrowings and $13.4 billion represented long-term debt. Other debt decreased by $13.1 billion in the second 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 2023 and cash of $209 million. In the second quarter, we exchanged $763 million of outstanding 6.75% senior notes due 2017. The transaction involved offering current holders market value plus an exchange premium for these outstanding notes, which consideration was paid through a combination of $839 million of new 3.5% senior notes due 2023 and cash of $88 million. Both exchanges were 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 unsecured senior bank notes in the first quarter of 2013. The remaining decrease was due to the maturities of FHLB advances of $35.7 billion, which was partially offset by $26.0 billion of new FHLB advances during the first six months of 2013. We provide additional information on our borrowings in Note 8 Deposits and Borrowings.

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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 $1.2 billion as of June 30, 2013, compared with $899 million as of December 31, 2012, and $1.0 billion as of June 30, 2012.

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

Table 14: Changes in Representation and Warranty Reserve

	Three Months Ended June 30,		Six Months Ended June 30,		Full Year
(Dollars in millions)	**2013**	**2012**	**2013**	**2012**	**2012**
Representation and warranty repurchase reserve, beginning of period[1]	**$ 994**	$ 1,101	**$ 899**	$ 943	$ 943
Provision for mortgage representation and warranty losses[2]	**183**	180	**280**	349	349
Net realized losses	**(21)**	(279)	**(23)**	(290)	(393)
Representation and warranty repurchase reserve, end of period[1]	**$ 1,156**	$ 1,002	**$ 1,156**	$ 1,002	$ 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 a benefit of $4 million and $14 million in the second quarter and first six months of 2013, respectively compared with a loss of $26 million and $42 million in the second quarter and first six months of 2012, respectively. 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 $187 million and $294 million in the second quarter and first six months of 2013, respectively and $154 million and $307 million in the second quarter and first six months of 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 June 30, 2013, is approximately $2.5 billion, a decline from $2.7 billion as both March 31, 2013 and December 31, 2012. The estimate as of June 30, 2013 covers all reasonably possible losses relating to representation and warranty claim activity, including those relating to the US Bank Litigation, the DBSP Litigation, the Ambac Litigation, the LXS Trusts Litigation, and the FHLB of Boston Litigation.

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.

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

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(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 $3.0 billion and $441 million, respectively, as of June 30, 2013, and our maximum exposure to loss was $3.1 billion as of June 30, 2013. We provide a discussion of our activities related to these VIEs in Note 6 Variable Interest Entities and Securitizations.

CAPITAL MANAGEMENT

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

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the 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% 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 measure. A bank is considered to be adequately capitalized if it meets the above minimum capital ratios and does not otherwise meet the well capitalized definition. Currently, prompt corrective action capital requirements do not apply to bank holding companies. We also disclose a Tier 1 common ratio for our bank holding company, which is a regulatory capital measure widely used by investors, analysts, rating agencies and bank regulatory agencies to assess the capital position of financial services companies. While there is currently no mandated minimum or well capitalized standard for the Tier 1 Common ratio, the Federal Reserve, the OCC, and the FDIC recently finalized a new capital framework that implements the Basel III capital accord developed by the Basel Committee on Banking Supervision (Basel Committee) and updates the prompt corrective action capital requirements. The new capital framework establishes a new minimum common equity Tier 1 capital ratio that will be phased-in starting in 2014 for banks subject to the Basel II Advanced Approaches of the Basel Committee (Advanced Approaches) and new capital standards under the prompt corrective action capital requirements effective 2015. See Supervision and Regulation for more information. In addition, we disclose a non-GAAP TCE ratio in Summary of Selected Financial Data. While the 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.

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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 June 30, 2013 and December 31, 2012.

Table 15: Capital Ratios Under Basel I[1]

(Dollars in millions)	June 30, 2013 Capital Ratio	June 30, 2013 Minimum Capital Adequacy	June 30, 2013 Well Capitalized	December 31, 2012 Capital Ratio	December 31, 2012 Minimum Capital Adequacy	December 31, 2012 Well Capitalized
Capital One Financial Corp:						
Tier 1 common[2]	**12.06%**	**N/A**	**N/A**	10.96%	N/A	N/A
Tier 1 risk-based capital[3]	**12.45**	**4.00%**	**6.00%**	11.34	4.00%	6.00%
Total risk-based capital[4]	**14.67**	**8.00**	**10.00**	13.56	8.00	10.00
Tier 1 leverage[5]	**9.69**	**4.00**	**N/A**	8.66	4.00	N/A
Capital One Bank (USA) N.A. (COBNA):						
Tier 1 risk-based capital[3]	**12.06%**	**4.00%**	**6.00%**	11.32%	4.00%	6.00%
Total risk-based capital[4]	**15.57**	**8.00**	**10.00**	14.74	8.00	10.00
Tier 1 leverage[5]	**10.40**	**4.00**	**5.00**	10.43	4.00	5.00
Capital One, N.A. (CONA):						
Tier 1 risk-based capital[3]	**13.00%**	**4.00%**	**6.00%**	13.59%	4.00%	6.00%
Total risk-based capital[4]	**14.10**	**8.00**	**10.00**	14.85	8.00	10.00
Tier 1 leverage[5]	**9.03**	**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 12.06% as of June 30, 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 June 30, 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 June 30, 2013 and December 31, 2012.

Recent Developments in Capital Requirements

The Federal Reserve, the OCC, and the FDIC recently finalized a rule implementing the Basel III capital framework developed by the Basel Committee as well as certain Dodd-Frank Act capital provisions (the Final Rule). The Final Rule increases the minimum capital that we and other institutions are required to hold. See Supervision and Regulation for more information.

Prior to being revised in the Final Rule, the minimum risk-based capital requirements adopted by the U.S. federal banking agencies followed Basel I as noted in Table 15 above and the Advanced Approaches. Currently, we are subject to Basel I and the Advanced Approaches and are in the Advanced Approaches qualification process. Under the Final Rule, when we complete parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater requirement of Basel I or the Advanced Approaches, both as modified under the Final Rule (Modified Basel I and Modified Advanced Approaches, respectively). See Supervision and Regulation-Basel II in our 2012 Annual Report on Form 10-K for additional information. We anticipate that we will need to hold more regulatory capital under the Modified Advanced Approaches than under Modified Basel I to maintain our required risk-based capital ratio.

We estimate that we exceeded an assumed Modified Advanced Approaches common equity Tier 1 capital ratio internal target of 8% in the second quarter. Our estimated capital trajectory includes the estimated impact of

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implementing the Modified Advanced Approaches to calculate regulatory capital, which we expect will apply to us in 2016 or later. The assumed 8% 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 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. Our common equity Tier 1 capital and risk-weighted assets under the Modified Advanced Approaches rules are estimated based on our current interpretation, expectations and understanding of the Modified Advanced Approaches rules and other capital regulations issued by U.S. regulators and the application of such rules to our businesses as currently conducted. We are in the early phases of developing, validating and deploying the models, processes and controls necessary to measure capital under the Modified Advanced Approaches rules. Further, Basel III calculations are necessarily subject to change based on, among other things, further changes to the Final Rules and other regulations, other implementation guidance, changes in our businesses and certain actions of management, including those affecting the composition of our balance sheet. Accordingly, our Basel III capital estimates are likely to continue to evolve until these uncertainties lessen.

Capital Planning and Regulatory Stress Testing

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us (commonly referred to as Comprehensive Capital Analysis and Review or CCAR). Under the rules, bank holding companies with consolidated assets of $50 billion or more must submit capital plans to the Federal Reserve on an annual basis and must obtain approval from the Federal Reserve before making most capital distributions. The purpose of the rules is to ensure that large bank holding companies have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. In January 2013 we submitted our capital plan to the Federal Reserve as part of the 2013 CCAR. On March 14, 2013, we were informed by 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.

On July 2, 2013, we announced that our Board of Directors authorized the repurchase of up to $1 billion of shares of our common stock, subject to the closing of the previously announced sale of our Best Buy loan portfolio. The Federal Reserve informed us that, contingent on the closing of the sale of the Best Buy loan portfolio, we may repurchase the shares through March 31, 2014. We expect the sale of the Best Buy loan portfolio to be completed in the third quarter of 2013. The timing and exact amount of any common stock share repurchases will depend on various factors, including the closing of the sale of the Best Buy loan portfolio, market conditions, our capital position, and internal capital generation. Our share repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time.

On July 3, 2013, we submitted to the Federal Reserve our results of the company-run, mid-year stress tests required by the Dodd-Frank Wall Street Reform and Consumer Protection Act (the Dodd-Frank Act). Similar to the annual-company-run tests, we are required to publicly disclose quantitative and qualitative information about our results under the severely adverse scenario. Results from the company-run, mid-year stress tests are to be disclosed between September 15 and September 30, 2013.

Dividends

On July 25, 2013, our Board of Directors declared a quarterly common stock dividend per share of $0.30 per share, payable on August 15, 2013 to stockholders of record as of August 5, 2013. The Board of Directors also declared a quarterly dividend on the outstanding shares of the Series B Preferred Stock. Each outstanding share

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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 September 3, 2013 to stockholders of record at the close of business on August 16, 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 $2.5 billion and $314 million, respectively, as of June 30, 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. In May 2013, we created a Board level Risk Committee that is separate from the Audit Committee to assist the Board in fulfilling its oversight responsibilities related to risk management. The Risk Committee receives management reports from the Chief Risk Officer or his designee related to the Corporation s enterprise-wide risk management framework, including policies and practices by management to identify, assess, measure and manage key risks facing the Corporation across all of the Corporation s eight major categories of risk: credit risk, liquidity risk, market risk, compliance risk, operational risk, legal risk, reputation 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.

We use a 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 have recently enhanced our risk management framework to more fully embody our Three Lines of Defense model and more fully capture the expectations of strong risk management. Our risk management framework consists of the following eight key elements:

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

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

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 June 30, 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 CCB 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 $6.2 billion and $201 million as of June 30, 2013 and December 31, 2012, respectively.

Table 16: Loan Portfolio Composition[(1)]

	June 30, 2013				December 31, 2012			
(Dollars in millions)	Loans	Acquired Loans[(2)]	Total[(3)]	% of Total	Loans	Acquired Loans[(2)]	Total[(3)]	% of Total
Credit Card business:								
Credit card loans:								
Domestic credit card loans	**$ 69,901**	**$ 85**	**$ 69,986**	**36.5%**	$ 82,058	$ 270	$ 82,328	40.0%
International credit card loans	**7,820**	**0**	**7,820**	**4.1**	8,614	0	8,614	4.2
Total credit card loans	**77,721**	**85**	**77,806**	**40.6**	90,672	270	90,942	44.2
Installment loans:								
Domestic installment loans	**500**	**4**	**504**	**0.3**	795	18	813	0.4
Total credit card	**78,221**	**89**	**78,310**	**40.9**	91,467	288	91,755	44.6
Consumer Banking business:								
Auto	**29,360**	**9**	**29,369**	**15.3**	27,106	17	27,123	13.2
Home loan	**7,367**	**31,796**	**39,163**	**20.4**	7,697	36,403	44,100	21.4
Other retail	**3,648**	**38**	**3,686**	**1.9**	3,870	34	3,904	1.9
Total consumer banking	**40,375**	**31,843**	**72,218**	**37.6**	38,673	36,454	75,127	36.5
Commercial Banking business:[(4)]								
Commercial and multifamily real estate	**18,465**	**105**	**18,570**	**9.7**	17,605	127	17,732	8.6
Commercial and industrial	**20,969**	**201**	**21,170**	**11.1**	19,660	232	19,892	9.7
Total commercial lending	**39,434**	**306**	**39,740**	**20.8**	37,265	359	37,624	18.3
Small-ticket commercial real estate.	**1,065**	**0**	**1,065**	**0.6**	1,196	0	1,196	0.5
Total commercial banking	**40,499**	**306**	**40,805**	**21.4**	38,461	359	38,820	18.8

Other:								
Other loans	**142**	**37**	**179**	**0.1**	154	33	187	0.1
Total loans held for investment	**$ 159,237**	**$ 32,275**	**$ 191,512**	**100.0%**	$ 168,755	$ 37,134	$ 205,889	100.0%

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(1) Excludes loans held for sale of $6.2 billion and $201 million as of June 30, 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) We had a net unamortized premium on purchased loans of $334 million and $461 million as of June 30, 2013 and December 31, 2012, respectively.
(4) Includes construction loans and land development loans totaling $2.2 billion as of June 30, 2013 and $2.1 billion as of December 31, 2012.

Credit Risk Measurement

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

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

As noted above, our Credit Card business accounted for $78.3 billion, or 41%, of our total loan portfolio as of June 30, 2013, with Domestic Card accounting for $70.5 billion, or 37%, of our total loan portfolio as of June 30, 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 June 30, 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.

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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 June 30, 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.

Table 17: 30+ Days Delinquencies

	June 30, 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	**$ 2,148**	**3.05%**	**3.05%**	**$ 2,148**	**3.05%**	**3.05%**	$ 3,001	3.61%	3.62%	$ 3,001	3.61%	3.62%
International credit card	**301**	**3.84**	**3.84**	**375**	**4.79**	**4.79**	308	3.58	3.58	387	4.49	4.49
Total credit card	**2,449**	**3.13**	**3.13**	**2,523**	**3.22**	**3.23**	3,309	3.61	3.62	3,388	3.69	3.70
Consumer Banking business:												
Automobile	**1,770**	**6.03**	**6.03**	**1,899**	**6.46**	**6.47**	1,900	7.00	7.01	2,049	7.55	7.56
Home loan	**46**	**0.12**	**0.63**	**327**	**0.84**	**4.44**	59	0.13	0.77	380	0.86	4.94
Retail banking	**25**	**0.68**	**0.68**	**49**	**1.34**	**1.35**	30	0.76	0.77	81	2.07	2.09
Total consumer banking	**1,841**	**2.55**	**4.56**	**2,275**	**3.15**	**5.63**	1,989	2.65	5.14	2,510	3.34	6.49
Commercial Banking business:												
Commercial and multifamily real estate	**129**	**0.69**	**0.70**	**205**	**1.10**	**1.11**	140	0.79	0.79	248	1.40	1.41
Commercial and industrial	**65**	**0.31**	**0.31**	**139**	**0.66**	**0.66**	73	0.37	0.37	135	0.68	0.69
Total commercial lending	**194**	**0.49**	**0.49**	**344**	**0.87**	**0.87**	213	0.57	0.57	383	1.02	1.03
Small-ticket commercial real estate	**9**	**0.88**	**0.88**	**19**	**1.79**	**1.79**	33	2.74	2.74	43	3.60	3.60

Total commercial banking	**203**	**0.50**	**0.50**	**363**	**0.89**	**0.90**	246	0.63	0.64	426	1.10	1.11
Other:												
Other loans	**6**	**3.40**	**4.27**	**28**	**15.47**	**19.43**	11	5.72	6.95	36	19.25	23.38
Total	**$ 4,499**	**2.35%**	**2.83%**	**$ 5,189**	**2.71%**	**3.26%**	$ 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

	June 30, 2013		December 31, 2012	
(Dollars in millions)	Amount	% of Total Loans[1]	Amount	% of Total Loans[1]
Total loan portfolio	**$ 191,512**	**100.0%**	$ 205,889	100.0%
Delinquency status:				
30 59 days	**$ 2,331**	**1.22%**	$ 2,664	1.29%
60 89 days	**1,155**	**0.60**	1,440	0.70
90 + days	**1,703**	**0.89**	2,256	1.10
Total	**$ 5,189**	**2.71%**	$ 6,360	3.09%
Geographic region:				
Domestic	**$ 4,814**	**2.51%**	$ 5,973	2.90%
International	**375**	**0.20**	387	0.19
Total	**$ 5,189**	**2.71%**	$ 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 June 30, 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

	June 30, 2013		December 31, 2012	
(Dollars in millions)	Amount	% of Total Loans	Amount	% of Total Loans
Loan category:[1]				
Credit card	**$ 1,086**	**1.39%**	$ 1,510	1.65%
Consumer	**1**	**0.00**	1	0.00
Commercial	**20**	**0.05**	16	0.04
Total	**$ 1,107**	**0.58%**	$ 1,527	0.74%
Geographic region:[2]				
Domestic	**$ 1,014**	**0.53%**	$ 1,427	0.69%
International	**93**	**0.05**	100	0.05
Total	**$ 1,107**	**0.58%**	$ 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 June 30, 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)]

	June 30, 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	**$ 94**	**1.20%**	$ 100	1.16%
Total credit card	**94**	**0.12**	100	0.11
Consumer Banking business:				
Auto	**128**	**0.44**	149	0.55
Home loan	**398**	**1.02**	422	0.96
Retail banking	**40**	**1.10**	71	1.82
Total consumer banking	**566**	**0.78**	642	0.85
Commercial Banking business:				
Commercial and multifamily real estate	**96**	**0.52**	137	0.77
Commercial and industrial	**136**	**0.64**	133	0.67
Total commercial lending	**232**	**0.58**	270	0.72
Small-ticket commercial real estate	**12**	**1.10**	12	0.97
Total commercial banking	**244**	**0.60**	282	0.73
Other:				
Other loans	**26**	**14.46**	30	15.85
Total nonperforming loans held for investment[(4)]	**$ 930**	**0.49%**	$ 1,054	0.51%
Other nonperforming assets:				
Foreclosed property[(5)]	**$ 165**	**0.09%**	$ 204	0.10%
Repossessed assets	**18**	**0.01**	22	0.01
Total other nonperforming assets	**183**	**0.10**	226	0.11
Total nonperforming assets	**$ 1,113**	**0.58%**	$ 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, total consumer banking, and total nonperforming loans held for investment was 5.40%, 1.40%, and 0.58%, respectively, as of June 30, 2013, compared with 5.48%, 1.66%, and 0.62%, respectively, as of December 31, 2012. The nonperforming asset ratio, excluding acquired loans from the denominator, was 0.70% and 0.76% as of June 30, 2013 and December 31, 2012, respectively.

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(3) We recognized interest income for loans classified as nonperforming of $17 million and $16 million in the first six months of 2013 and 2012, respectively. Interest income foregone related to nonperforming loans was $34 million and $29 million in the first six months of 2013 and 2012, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(4) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 0.82% and 0.92% as of June 30, 2013 and December 31, 2012, respectively.

(5) Includes foreclosed properties related to acquired loans of $129 million and $167 million as of June 30, 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 second quarter and first six months 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 June 30,					
	2013			2012		
(Dollars in millions)	Amount	Rate(1)	Adjusted Rate(2)	Amount	Rate(1)	Adjusted Rate(2)
Credit Card business:						
Domestic credit card and installment loans	**$ 749**	**4.28%**	**4.29%**	$ 510	2.86%	2.87%
International credit card	**101**	**5.08**	**5.08**	112	5.49	5.49
Total credit card	**850**	**4.36**	**4.37**	622	3.13	3.14
Consumer Banking business:						
Automobile	**92**	**1.28**	**1.28**	68	1.11	1.11
Home loan	**4**	**0.03**	**0.16**	12	0.09	0.60
Retail banking	**14**	**1.50**	**1.52**	13	1.27	1.29
Total consumer banking	**110**	**0.60**	**1.08**	93	0.48	1.02
Commercial Banking business:						
Commercial and multifamily real estate	**1**	**0.04**	**0.04**	7	0.18	0.18
Commercial and industrial	**2**	**0.03**	**0.03**	5	0.10	0.10
Total commercial lending	**3**	**0.03**	**0.03**	12	0.14	0.14
Small-ticket commercial real estate	**1**	**0.45**	**0.45**	5	1.46	1.46
Total commercial banking	**4**	**0.04**	**0.04**	17	0.19	0.19
Other:						
Other loans	**5**	**13.10**	**16.65**	6	18.04	18.04
Total	**$ 969**	**2.03%**	**2.46%**	$ 738	1.53%	1.96%

Average loans held for investment	**$ 190,562**	$ 192,632
Average loans held for investment (excluding acquired loans)	**157,418**	150,450

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(Dollars in millions)	2013 Amount	2013 Rate[(1)]	2013 Adjusted Rate[(2)]	2012 Amount	2012 Rate[(1)]	2012 Adjusted Rate[(2)]
	Six Months Ended June 30,					
Credit Card business:						
Domestic credit card and installment loans	**$ 1,576**	**4.36%**	**4.37%**	$ 1,041	3.32%	3.33%
International credit card	**196**	**4.83**	**4.83**	227	5.51	5.51
Total credit card	**1,772**	**4.41**	**4.41**	1,268	3.57	3.58
Consumer Banking business:						
Automobile	**214**	**1.52**	**1.52**	147	1.25	1.26
Home loan	**8**	**0.04**	**0.19**	27	0.13	0.71
Retail banking	**31**	**1.68**	**1.69**	27	1.33	1.34
Total consumer banking	**253**	**0.69**	**1.27**	201	0.60	1.15
Commercial Banking business:						
Commercial and multifamily real estate	**2**	**0.03**	**0.03**	11	0.14	0.14
Commercial and industrial	**4**	**0.04**	**0.04**	1	0.02	0.02
Total commercial lending	**6**	**0.03**	**0.03**	12	0.07	0.07
Small-ticket commercial real estate	**5**	**0.94**	**0.94**	21	2.90	2.90
Total commercial banking	**11**	**0.06**	**0.06**	33	0.19	0.19
Other:						
Other loans	**12**	**13.83**	**17.58**	16	20.97	20.97
Total	**$ 2,048**	**2.12%**	**2.58%**	$ 1,518	1.76%	2.17%
Average loans held for investment	**$ 193,265**			$ 172,767		
Average loans held for investment (excluding acquired loans)	**158,840**			140,142		

(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.

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 June 30, 2013 and December 31, 2012 with 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.

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Table 22: Loan Modifications and Restructurings

	June 30, 2013		December 31, 2012	
(Dollars in millions)	Amount	% of Total Modifications	Amount	% of Total Modifications
Modified and restructured loans:				
Credit card[(1)]	**$ 799**	**47.3%**	$ 873	48.7%
Auto	**326**	**19.3**	328	18.3
Home loan	**205**	**12.1**	145	8.1
Retail banking	**63**	**3.7**	65	3.6
Commercial banking	**297**	**17.6**	383	21.3
Total	**$ 1,690**	**100.0%**	$ 1,794	100.0%
Status of modified and restructured loans:				
Performing	**$ 1,212**	**71.7%**	$ 1,419	79.1%
Nonperforming	**478**	**28.3**	375	20.9
Total	**$ 1,690**	**100.0%**	$ 1,794	100.0%

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

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

The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction. The vast majority of modified 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 $1.9 billion as of June 30, 2013 and $2.0 billion as of December 31, 2012. TDRs accounted for $1.7 billion as of June 30, 2013 and $1.8 billion as of December 31, 2012 of impaired loans. 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.

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Allowance for Loan and Lease Losses

Our allowance for loan and lease losses represents management s best estimate of incurred loan and lease credit losses inherent in our held for investment portfolio as of each balance sheet date. We do not maintain an allowance for held for sale loans or 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 for the second quarter and first six months of 2013 and 2012, which details by loan type, the provision for credit losses recognized in our consolidated statements of income each period and charge-offs recorded against the allowance for loan and lease losses.

Table 23: Allowance for Loan and Lease Losses Activity

	Three Months Ended June 30,		**Six Months Ended June 30,**	
(Dollars in millions)	**2013**	**2012**	**2013**	**2012**
Balance at beginning of period, as reported	**$ 4,606**	$ 4,060	**$ 5,156**	$ 4,250
Provision for credit losses(1) (2)	**778**	1,686	**1,613**	2,265
Charge-offs:				
Credit Card business:				
Domestic credit card and installment loans	**(1,033)**	(746)	**(2,152)**	(1,534)
International credit card	**(148)**	(162)	**(291)**	(329)
Total credit card	**(1,181)**	(908)	**(2,443)**	(1,863)
Consumer Banking business:				
Auto	**(153)**	(122)	**(335)**	(262)
Home loan	**(5)**	(19)	**(12)**	(43)
Retail banking	**(19)**	(20)	**(44)**	(40)
Total consumer banking	**(177)**	(161)	**(391)**	(345)
Commercial Banking business:				
Commercial and multifamily real estate	**(2)**	(8)	**(4)**	(17)
Commercial and industrial	**(6)**	(8)	**(10)**	(19)
Total commercial lending	**(8)**	(16)	**(14)**	(36)
Small-ticket commercial real estate	**(6)**	(8)	**(12)**	(24)
Total commercial banking	**(14)**	(24)	**(26)**	(60)
Other loans	**(7)**	(7)	**(15)**	(18)
Total charge-offs	**(1,379)**	(1,100)	**(2,875)**	(2,286)
Recoveries:				
Credit Card business:				
Domestic credit card and installment loans	**284**	236	**576**	493
International credit card	**47**	50	**95**	102
Total credit card	**331**	286	**671**	595
Consumer Banking business:				
Auto	**61**	54	**121**	115
Home loan	**1**	7	**4**	16
Retail banking	**5**	7	**13**	13
Total consumer banking	**67**	68	**138**	144
Commercial Banking business:				
Commercial and multifamily real estate	**1**	1	**2**	6
Commercial and industrial	**4**	3	**6**	17

Total commercial lending	**5**	4	**8**	23
Small-ticket commercial real estate	**5**	3	**7**	4
Total commercial banking	**10**	7	**15**	27
Other loans	**2**	1	**3**	2
Total recoveries	**410**	362	**827**	768
Net charge-offs	**(969)**	(738)	**(2,048)**	(1,518)
Impact of loan transfers, sales and other changes[2]	**(8)**	(10)	**(314)**	1
Balance at end of period	**$ 4,407**	$ 4,998	**$ 4,407**	$ 4,998
Allowance for loan and lease losses as a percentage of loans held for investment			**2.30%**	2.47%

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(1) The total provision for credit losses reported in our consolidated statements of income of $762 million and $1.6 billion in the second quarter and first six months of 2013, respectively and $1.7 billion and $2.3 billion in the second quarter and first six months of 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 negative provision for unfunded lending commitments of $16 million and provision of $34 million in the second quarter and first six months of 2013, respectively, and the negative provision for unfunded lending commitments of $9 million and $15 million in the second quarter and first six months of 2012, respectively.

(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 six months of 2013, and a foreign translation loss of $8 million and $25 million in the second quarter and first six months of 2013, respectively. Consists of a foreign translation loss of $10 million and $21 million for the second quarter and first six months of 2012, respectively.

Table 24 presents an allocation of our allowance for loan and lease losses by loan category as of June 30, 2013 and December 31, 2012.

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

	June 30, 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	**$ 2,955**	**4.19%**	$ 3,526	4.24%
International credit card	**394**	**5.04**	453	5.26
Total credit card	**3,349**	**4.28**	3,979	4.34
Consumer Banking business:				
Auto	**537**	**1.83**	486	1.79
Home loan	**79**	**0.20**	113	0.26
Retail banking	**86**	**2.33**	112	2.87
Total consumer banking	**702**	**0.97**	711	0.95
Commercial Banking business:				
Commercial and multifamily real estate	**132**	**0.71**	239	1.35
Commercial and industrial	**163**	**0.77**	116	0.58
Total commercial lending	**295**	**0.74**	355	0.94
Small-ticket commercial real estate	**43**	**4.04**	78	6.52
Total commercial banking	**338**	**0.83**	433	1.12
Other loans	**18**	**10.06**	33	17.65
Total	**$ 4,407**	**2.30%**	$ 5,156	2.50%
Total allowance coverage ratios:				
Period-end loans held for investment	**$ 191,512**	**2.30%**	$ 205,889	2.50%
Period-end loans held for investment (excluding acquired loans)	**159,237**	**2.74**	168,755	3.02
Nonperforming loans[2]	**930**	**473.87**	1,054	489.18
Allowance coverage ratios by loan category:				
Credit card (30 + day delinquent loans)	**$ 2,523**	**132.74%**	$ 3,388	117.44%
Consumer banking (30 + day delinquent loans)	**2,275**	**30.86**	2,510	28.33
Commercial banking (nonperforming loans)	**244**	**138.52**	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.

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(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 113.76% as of June 30, 2013 and 111.67% as of December 31, 2012.

Our allowance decreased by $749 million to $4.4 billion as of June 30, 2013 from $5.2 billion as of December 31, 2012. The reduction reflected an allowance reversal of $289 million related to the transfer of the Best Buy loan portfolio to held for sale and an allowance release of $261 million due to an improved credit outlook. The allowance coverage ratio declined to 2.30% as of June 30, 2013, from 2.50% as of December 31, 2012.

LIQUIDITY RISK PROFILE

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

Table 25 below presents the composition of our liquidity reserves as of June 30, 2013 and December 31, 2012.

Table 25: Liquidity Reserves

(Dollars in millions)	June 30, 2013	December 31, 2012
Cash and cash equivalents	**$ 4,653**	$ 11,058
Investment securities available for sale[1]	**62,602**	63,979
Less: Pledged investment securities available for sale	**(16,928)**	(13,811)
Unencumbered investment securities available for sale	**45,674**	50,168
Total liquidity reserves	**$ 50,327**	$ 61,226

(1) The weighted average life of our available-for-sale securities was approximately 6.2 years and 4.3 years as of June 30, 2012 and December 31, 2012, respectively.

Our liquidity reserves decreased by $10.9 billion, or 18%, in the first six months of 2013, to $50.3 billion as of June 30, 2013. This decrease was primarily attributable to a decrease in cash and cash equivalents. We held higher cash as of December 31, 2012 in anticipation of the January 2, 2013 redemption of the $3.65 billion in trust preferred securities.

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.

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 six months of 2013 and full year 2012.

Table 26: Deposit Composition and Average Deposit Rates

	Six Months Ended June 30, 2013				
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate
Non-interest bearing	$ 22,097	$ 21,142	N/A	10.0%	N/A
Negotiable order of withdrawal (NOW) accounts	43,889	42,887	$ 127	20.3	0.59%
Money market deposit accounts	102,424	103,553	326	49.1	0.63
Savings accounts	27,109	27,664	31	13.1	0.22
Consumer time deposits less than $100,000	9,117	10,134	95	4.8	1.87
Total core deposits	204,636	205,380	579	97.3	0.56
Public fund certificates of deposit of $100,000 or more	54	50			
Certificates of deposit of $100,000 or more	4,073	4,274	63	2.0	2.95
Foreign time deposits	1,102	1,396	2	0.7	0.29
Total customer deposits	$ 209,865	$ 211,100	$ 644	100.0%	0.61%

	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
Consumer time deposits less than $100,000	11,028	12,762	258	6.4	2.02
Total core deposits	206,911	196,873	1,255	97.0	0.64
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 decreased by $2.6 billion during the first six months of 2013 to $209.9 billion as of June 30, 2013, 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 consumer time deposits in the above table. Brokered deposits totaled $8.9 billion, or 4% of total deposits, as of June 30, 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 June 30, 2013 and December 31, 2012, and therefore were permitted to maintain brokered deposits. We expect to replace maturing brokered deposits with other sources of funding, which may include funding accessed through the capital markets.

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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 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. 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 excluding securitized debt obligations, totaled $25.4 billion as of June 30, 2013, of which $12.0 billion represented short-term borrowings and $13.4 billion represented long-term debt. Other debt decreased by $13.1 billion in the second 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.

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 June 30,					
	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	**$ 1,461**	**0.10%**	**$ 1,838**	$ 774	0.21%	$ 1,104
FHLB advances	**10,395**	**0.23**	**10,501**	3,796	0.22	7,000
Total short-term borrowings	**$ 11,856**	**0.21%**		$ 4,570	0.22%	

	Six Months Ended June 30,					
	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	**$ 1,286**	**0.11%**	**$ 1,838**	$ 1,054	0.19%	$ 1,228
FHLB advances	**13,007**	**0.25**	**16,600**	3,652	0.19	7,000
Total short-term borrowings	**$ 14,293**	**0.24%**		$ 4,706	0.19%	

	June 30, 2013		December 31, 2012	
(Dollars in millions)	Amount	Weighted Average Interest Rate	Amount	Weighted Average Interest Rate
Period-end balance:				
Federal funds purchased and resale agreements	**$ 1,766**	**0.08%**	$ 1,248	0.28%
FHLB advances	**10,201**	**0.20**	19,900	0.27

Total short-term borrowings	**$ 11,967**	**0.18%**	$ 21,148	0.27%

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Table 28 displays the maturity profile, based on contractual maturities, of our securitized debt obligations and other debt as of June 30, 2013.

Table 28: Contractual Maturity Profile of Outstanding Debt

	June 30, 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	$ 1,766	$	$	$	$	$	$ 1,766
FHLB advances	10,201						10,201
Total short-term borrowings	11,967						11,967
Long-term debt:							
Securitized debt obligations	3,325	416	2,351	2,878	1,615	246	10,831
Senior and subordinated notes:							
Unsecured senior debt	1,580	2,655	1,246	999	1,155	2,053	9,688
Unsecured subordinated debt	102			1,142		1,474	2,718
Total senior and subordinated notes	1,682	2,655	1,246	2,141	1,155	3,527	12,406
Other long-term borrowings:							
FHLB advances	26	940	8	33	13	7	1,027
Total long-term debt[(1)]	5,033	4,011	3,605	5,052	2,783	3,780	24,264
Total short-term borrowings and long-term debt	$ 17,000	$ 4,011	$ 3,605	$ 5,052	$ 2,783	$ 3,780	$ 36,231
Percentage of total	47%	11%	10%	14%	8%	10%	100%

(1) Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of $241 million as of June 30, 2013.

We provide additional information on our short-term borrowings and long-term debt above under Consolidated Balance Sheet Analysis Securitized Debt Obligations, Consolidated Balance Sheet Analysis Other Debt and 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.

In addition to our issuance capacity under the shelf registration statement, we also have access to FHLB advances with a maximum borrowing capacity of $38.6 billion as of June 30, 2013. This borrowing capacity was secured by posting $29.7 billion of loans and $8.9 billion of securities as collateral. We had outstanding FHLB advances of $11.6 billion as of June 30, 2013, and $27.0 billion still available to us to borrow under this program. This funding source is non-revolving and funding availability is subject to market conditions. Our FHLB membership is secured by our investment in FHLB stock, which totaled $746 million and $1.3 billion as of June 30, 2013 and December 31, 2012, respectively.

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Credit Ratings

Our credit ratings have a significant impact on our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs. Table 29 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of June 30, 2013 and December 31, 2012.

Table 29: Senior Unsecured Debt Credit Ratings

	June 30, 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 July 31, 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 the measures we use to evaluate our market risk exposure.

Primary Market Risk Exposures

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

Interest Rate Risk

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

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. 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 manage our net exposures through the use of derivatives. The estimated reduction in our 12-month earnings due to adverse foreign exchange rate movements corresponding to a 95% confidence level was less than 2.0% as of June 30, 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, altering the maturity and re-pricing characteristics of our various assets and liabilities through interest rate derivatives. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current asset/liability management policy includes the use of derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $60.8 billion as of June 30, 2013, compared with $57.8 billion as of December 31, 2012.

Market Risk Measurement

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

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 since then 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 as a scenario where interest rates would decline by an additional 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. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume an instantaneous plus 200 basis point and minus 50 basis point shock, with the lower rate scenario limited to zero as described above.

Economic Value of Equity

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

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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 June 30, 2013 and December 31, 2012. In addition to these industry standard measures, 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)	June 30, 2013	December 31, 2012
Impact on projected base-line adjusted net interest income:		
+200 basis points	**1.9%**	2.7%
50 basis points	**(1.5)**	(1.7)
Impact on economic value of equity:		
+200 basis points	**(5.9)**	(3.1)
50 basis points	**0.6**	(1.4)

Our projected net interest income and economic value of equity sensitivity measures were within our prescribed asset/liability policy limits as of June 30, 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 depositor behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The above sensitivity analysis contemplate only certain movements in interest rates and are performed at a particular point in time based on the existing balance sheet and, in some cases, expected future business growth and funding mix assumptions. The strategic actions that management may take to manage our balance sheet may differ significantly from our projections, which could cause our actual earnings and economic value of equity sensitivities to differ substantially from the above sensitivity analysis.

SUPERVISION AND REGULATION

As noted under Capital Management , the Federal Reserve, the OCC, and the FDIC (collectively, the Agencies) recently issued the Final Rule. The Final Rule increases the minimum capital that we and other institutions are required to hold.

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

Specifically, the Final Rule establishes for bank holding companies and banks a new minimum common equity Tier 1 capital ratio of 4.5 percent, adopts a leverage ratio of 4 percent (and removes the current 3 percent limited

exception), and implements a capital conservation buffer of 2.5 percent. It also contains a supplementary leverage ratio of 3 percent and a countercyclical capital buffer of up to 2.5 percent (initially set to zero percent). We are required to begin compliance with certain aspects of the Final Rule as of January 1, 2014 and other provisions will go into effect according to different start dates and phase-in periods.

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

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In June 2011, the Federal Reserve adopted a final rule and an interim final rule (which largely was adopted in final form in July 2012) implementing the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rules limited interchange fees per debit card transaction to $.21 plus five basis points of the transaction amount and provide for an additional $.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. On July 31, 2013, the U.S. District Court for the District of Columbia issued a ruling that requires the Federal Reserve to reconsider the current permissible interchange amount. It is unclear what actions the Federal Reserve will take in response to the ruling, or the timing thereof, and how those actions will impact our debit card business. If the Federal Reserve implements a lower permissible interchange amount, it could negatively impact revenue from our debit card business.

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;

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)	June 30, 2013	December 31, 2012
Stockholders equity to non-GAAP tangible common equity		
Total stockholders equity.	**$ 41,041**	$ 40,499
Less: Goodwill and other intangible assets[1]	**(15,872)**	(16,224)
Noncumulative perpetual preferred stock.	**(853)**	(853)
Tangible common equity	**$ 24,316**	$ 23,422
Total assets to tangible assets		
Total assets	**$ 296,542**	$ 312,918
Less: Assets from discontinued operations.	**(310)**	(309)
Total assets from continuing operations	**296,232**	312,609
Less: Goodwill and other intangible assets[1]	**(15,872)**	(16,224)
Tangible assets	**$ 280,360**	$ 296,385
Non-GAAP TCE ratio		
Tangible common equity	**$ 24,316**	$ 23,422
Tangible assets	**280,360**	296,385
TCE ratio[2]	**8.67%**	7.90%
Regulatory capital ratios		
Total stockholders equity.	**$ 41,041**	$ 40,499
Less: Net unrealized (gains) losses on investment securities available for sale recorded in AOCI[3]	**503**	(712)
Net losses on cash flow hedges recorded in AOCI[3]	**175**	2
Disallowed goodwill and other intangible assets[4]	**(14,309)**	(14,428)
Disallowed deferred tax assets.		
Noncumulative perpetual preferred stock[5]	**(853)**	(853)
Other	**(5)**	(12)
Tier 1 common capital	**26,552**	24,496
Plus: Noncumulative perpetual preferred stock[5]	**853**	853
Tier 1 restricted core capital items[6]	**2**	2
Tier 1 capital	**27,407**	25,351
Plus: Long-term debt qualifying as Tier 2 capital.	**2,104**	2,119
Qualifying allowance for loan and lease losses	**2,781**	2,830
Other Tier 2 components	**12**	13
Tier 2 capital	**4,897**	4,962

Total risk-based capital(7)	**$ 32,304**	$ 30,313
Risk-weighted assets(8)	**$ 220,166**	$ 223,472
Tier 1 common ratio(9)	**12.06%**	10.96%
Tier 1 risk-based capital ratio(10)	**12.45**	11.34
Total risk-based capital ratio(11)	**14.67**	13.56

(1) Includes impact from related deferred taxes.
(2) Calculated based on tangible common equity divided by tangible assets.
(3) Amounts presented are net of tax.
(4) Disallowed goodwill and other intangible assets are net of related deferred tax liability.
(5) Noncumulative perpetual preferred stock qualifies as Tier 1 capital; however, it does not qualify as Tier 1 common capital.
(6) Consists of noncontrolling minority interests.
(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 June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Interest income:				
Loans, including loans held for sale	**$ 4,596**	$ 4,257	**$ 9,245**	$ 7,914
Investment securities	**391**	335	**765**	633
Other	**23**	24	**51**	48
Total interest income	**5,010**	4,616	**10,061**	8,595
Interest expense:				
Deposits	**318**	373	**644**	684
Securitized debt obligations	**45**	69	**101**	149
Senior and subordinated notes	**82**	87	**164**	175
Other borrowings	**12**	86	**29**	172
Total interest expense	**457**	615	**938**	1,180
Net interest income	**4,553**	4,001	**9,123**	7,415
Provision for credit losses	**762**	1,677	**1,647**	2,250
Net interest income after provision for credit losses	**3,791**	2,324	**7,476**	5,165
Non-interest income:				
Service charges and other customer-related fees	**534**	539	**1,084**	954
Interchange fees, net	**486**	408	**931**	736
Total other-than-temporary impairment	**(12)**	(21)	**(18)**	(25)
Less: Portion of other-than-temporary impairment recorded in AOCI	**8**	8	**(11)**	(2)
Net other-than-temporary impairment recognized in earnings	**(4)**	(13)	**(29)**	(27)
Bargain purchase gain	**0**	0	**0**	594
Other	**69**	120	**80**	318
Total non-interest income	**1,085**	1,054	**2,066**	2,575
Non-interest expense:				
Salaries and associate benefits	**1,104**	971	**2,184**	1,835
Occupancy and equipment	**356**	323	**706**	593
Marketing	**330**	334	**647**	655
Professional services	**329**	313	**636**	606
Communications and data processing	**233**	203	**443**	375
Amortization of intangibles	**167**	157	**344**	219
Acquisition-related	**50**	133	**96**	219
Other	**490**	708	**1,031**	1,144
Total non-interest expense	**3,059**	3,142	**6,087**	5,646
Income from continuing operations before income taxes	**1,817**	236	**3,455**	2,094
Income tax provision	**581**	43	**1,075**	396

Income from continuing operations, net of tax	**1,236**	193	**2,380**	1,698
Loss from discontinued operations, net of tax	**(119)**	(100)	**(197)**	(202)
Net income	**1,117**	93	**2,183**	1,496
Dividends and undistributed earnings allocated to participating securities	**(4)**	(1)	**(9)**	(8)
Preferred stock dividends	**(13)**	0	**(26)**	0
Net income available to common stockholders	**$ 1,100**	$ 92	**$ 2,148**	$ 1,488
Basic earnings per common share:				
Income from continuing operations	**$ 2.09**	$ 0.33	**$ 4.04**	$ 3.11
Loss from discontinued operations	**(0.20)**	(0.17)	**(0.34)**	(0.37)
Net income per basic common share	**$ 1.89**	$ 0.16	**$ 3.70**	$ 2.74
Diluted earnings per common share:				
Income from continuing operations	**$ 2.07**	$ 0.33	**$ 3.99**	$ 3.09
Loss from discontinued operations	**(0.20)**	(0.17)	**(0.34)**	(0.37)
Net income per diluted common share	**$ 1.87**	$ 0.16	**$ 3.65**	$ 2.72
Dividends paid per common share	**$ 0.30**	$ 0.05	**$ 0.35**	$ 0.10

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2013**	**2012**	**2013**	**2012**
Net income	**$ 1,117**	$ 93	**$ 2,183**	$ 1,496
Other comprehensive income (loss) before taxes:				
Total net unrealized gains (losses) on securities available for sale	**(1,747)**	171	**(1,956)**	216
Net unrealized gains (losses) on cash flow hedges	**(258)**	60	**(279)**	61
Foreign currency translation adjustments	**(18)**	(44)	**(143)**	11
Other	**3**	(5)	**7**	(5)
Other comprehensive income (loss) before taxes	**(2,020)**	182	**(2,371)**	283
Income tax provision (benefit) related to other comprehensive income	**(755)**	85	**(840)**	102
Other comprehensive income (loss), net of tax	**(1,265)**	97	**(1,531)**	181
Comprehensive income	**$ (148)**	$ 190	**$ 652**	$ 1,677

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)	June 30, 2013	December 31, 2012
Assets:		
Cash and cash equivalents:		
Cash and due from banks	**$ 2,176**	$ 3,440
Interest-bearing deposits with banks	**2,279**	7,617
Federal funds sold and securities purchased under agreements to resell	**198**	1
Total cash and cash equivalents	**4,653**	11,058
Restricted cash for securitization investors	**377**	428
Securities available for sale, at fair value	**62,602**	63,979
Loans held for investment:		
Unsecuritized loans held for investment	**151,231**	162,059
Restricted loans for securitization investors	**40,281**	43,830
Total loans held for investment	**191,512**	205,889
Less: Allowance for loan and lease losses	**(4,407)**	(5,156)
Net loans held for investment	**187,105**	200,733
Loans held for sale, at lower of cost or fair value	**6,248**	201
Premises and equipment, net	**3,766**	3,587
Interest receivable	**1,454**	1,694
Goodwill	**13,900**	13,904
Other	**16,437**	17,334
Total assets	**$ 296,542**	$ 312,918
Liabilities:		
Interest payable	**$ 324**	$ 450
Customer deposits:		
Non-interest bearing deposits	**22,097**	22,467
Interest bearing deposits	**187,768**	190,018
Total customer deposits	**209,865**	212,485
Securitized debt obligations	**10,831**	11,398
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	**1,766**	1,248
Senior and subordinated notes	**12,406**	12,686
Other borrowings	**11,228**	24,578
Total other debt	**25,400**	38,512
Other liabilities	**9,081**	9,574
Total liabilities	**255,501**	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 June 30, 2013 and December 31, 2012	**6**	6

Common stock, par value $.01 per share; 1,000,000,000 shares authorized; 634,976,583 and 631,806,585 shares issued as of June 30, 2013 and December 31, 2012, respectively, and 584,862,301 and 582,207,133 shares outstanding as of June 30, 2013 and December 31, 2012, respectively		
Additional paid-in capital, net	**26,339**	26,188
Retained earnings	**18,804**	16,853
Accumulated other comprehensive income	**(792)**	739
Less: Treasury stock, at cost; par value $.01 per share; 50,114,282 and 49,599,452 shares as of June 30, 2013 and December 31, 2012, respectively	**(3,316)**	(3,287)
Total stockholders equity	**41,041**	40,499
Total liabilities and stockholders equity	**$ 296,542**	$ 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		
(Dollars in millions, except per share data)	Shares	Amount	Shares	Amount	Additional Paid-In Capital	Retained Earnings	Comprehensive 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)						**2,183**	**(1,531)**		**652**
Cash dividends common stock $0.35 per share						**(206)**			**(206)**
Cash dividends preferred stock 6% per annum						**(26)**			**(26)**
Purchases of treasury stock								**(29)**	**(29)**
Issuances of common stock and restricted stock, net of forfeitures			**2,325,554**		**44**				**44**
Exercise of stock options and tax benefits of exercises and restricted stock vesting			**844,444**		**44**				**44**
Compensation expense for restricted stock awards and stock options					**63**				**63**
Balance as of June 30, 2013	**875,000**	**$ 0**	**634,976,583**	**$ 6**	**$ 26,339**	**$ 18,804**	**$ (792)**	**$ (3,316)**	**$ 41,041**

See Notes to Condensed Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
(Dollars in millions)	**2013**	**2012**
Operating activities:		
Income from continuing operations, net of tax	**$ 2,380**	$ 1,698
Loss from discontinued operations, net of tax	**(197)**	(202)
Net income	**2,183**	1,496
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	**1,647**	2,250
Depreciation and amortization, net	**1,152**	671
Net gains on sales of securities available for sale	**(4)**	(41)
Impairment losses on securities available for sale	**29**	27
Bargain purchase gain	**0**	(594)
Loans held for sale:		
Originations	**(552)**	(934)
Gains on sales	**(18)**	(29)
Proceeds from sales and paydowns	**1,322**	996
Stock plan compensation expense	**112**	116
Changes in operating assets and liabilities, net of effects of acquisitions:		
(Increase) decrease in interest receivable	**240**	(424)
(Increase) decrease in other assets	**289**	22
Increase (decrease) in interest payable	**(126)**	(4)
Increase (decrease) in other liabilities	**(355)**	458
Net cash (used in) provided by operating activities attributable to discontinued operations	**(287)**	21
Net cash provided by operating activities	**5,632**	4,031
Investing activities:		
Increase in restricted cash for securitization investors	**51**	421
Purchases of securities available for sale	**(10,502)**	(9,095)
Proceeds from paydowns and maturities of securities available for sale	**8,486**	8,651
Proceeds from sales of securities available for sale	**1,320**	14,258
Net (increase) decrease in loans held for investment	**3,997**	(1,517)
Principal recoveries of loans previously charged off	**827**	768
Additions of premises and equipment	**(450)**	(262)
Net cash paid for acquisitions	**0**	(17,603)
Net cash provided by (used in) investing activities	**3,729**	(4,379)
Financing activities:		
Net increase (decrease) in deposits	**(2,628)**	1,279
Issuance of securitized debt obligation	**1,450**	0
Maturities and paydowns of securitized debt obligations	**(2,017)**	(2,919)
Issuance of senior and subordinated notes	**934**	1,250
Redemption of junior subordinated debentures	**(3,641)**	0
Maturities and redemptions of senior and subordinate notes	**(500)**	(282)
Net decrease in other borrowings	**(9,191)**	(1,989)
Net proceeds from issuances of common stock	**44**	3,200
Proceeds from share-based payment activities	**44**	45
Dividends paid on common stock	**(206)**	(53)
Dividends paid on preferred stock	**(26)**	0
Purchases of treasury stock	**(29)**	(42)
Net cash provided by (used in) financing activities	**(15,766)**	489

Increase (decrease) in cash and cash equivalents	**(6,405)**	141
Cash and cash equivalents at beginning of the period	**11,058**	5,838
Cash and cash equivalents at end of the period	**$ 4,653**	$ 5,979
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	**6,820**	45
Redemption of senior and subordinated notes	**(1,969)**	0
Issuance of senior and subordinated notes	**1,968**	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 June 30, 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.

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 of a normal recurring nature considered 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. 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 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.

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CAPITAL ONE FINANCIAL CORPORATION

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

Offsetting Financial Assets and Liabilities

Effective January 13, 2013 we were 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 clarifies that an entity shall 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 do not expect our adoption of this guidance in the first quarter of 2014 to have a significant effect on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice.

New Benchmark Interest Rate for Hedge Accounting Purposes

In July 2013, the FASB issued guidance permitting the use of the Fed Funds Effective Swap Rate (or Overnight Index Swap Rate, OIS) as a benchmark interest rate for hedge accounting purposes. The addition of OIS expands the number of benchmark interest rates to three, including the US Treasury rate and London Interbank Offered Rate swap rate. The guidance also removes the previous restriction on using different benchmark rates for similar hedges. The guidance is effective for qualifying new or redesignated hedging relationships entered into on or after July 17, 2013. See Note 9 Derivatives Instruments and Hedging Activities for further details regarding the impact derivative contracts designated as qualifying accounting hedges have on our financial condition and results of operations.

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 and six months ended June 30, 2013 and 2012. We have no significant continuing involvement in these operations.

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CAPITAL ONE FINANCIAL CORPORATION

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

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	**2013**	**2012**	**2013**	**2012**
Non-interest expense, net	**$ (190)**	$ (160)	**$ (315)**	$ (321)
Loss from discontinued operations before taxes	**(190)**	(160)	**(315)**	(321)
Income tax benefit	**(71)**	(60)	**(118)**	(119)
Loss from discontinued operations	**$ (119)**	$ (100)	**$ (197)**	$ (202)

The loss from discontinued operations includes an expense of $187 million ($117 million, net of tax) and $154 million ($97 million, net of tax) for the second quarter of 2013 and 2012, respectively, and $294 million ($184 million, net of tax) and $307 million ($194 million, net of tax) for the first six months of 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 $310 million and $309 million as of June 30, 2013 and December 31, 2012, respectively. Liabilities, which primarily consisted of reserves for representations and warranties on loans previously sold to third parties, totaled $930 million and $644 million as of June 30, 2013 and December 31, 2012, respectively.

NOTE 3 INVESTMENT SECURITIES

Our portfolio of investment securities available for sale, which had a fair value of $62.6 billion as of June 30, 2013 and $64.0 billion as of 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 guaranteed by the U.S. government or agencies of the U.S. government represented 77% of our total investment securities available for sale as of both June 30, 2013, and December 31, 2012.

Securities at Amortized Cost and Fair Value

Substantially all of our investment securities were classified as available for sale as of June 30, 2013 and December 31, 2012 and reported in our condensed consolidated balance sheets at fair value. We did not have any investment securities designated as held to maturity as of June 30, 2013. We had $9 million of investment securities designated as held to maturity as of December 31, 2012. 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 June 30, 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).

	June 30, 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	$ 838	$ 2	$ 0	$ 0	$ 0	$ 840
U.S. agency debt obligations[(3)]	101	0	0	0	0	101
Corporate debt securities guaranteed by U.S. government agencies[(4)]	1,240	2	0	(38)	(38)	1,204
Residential mortgage-backed securities (RMBS):						
Agency[(5)]	40,798	267	0	(1,202)	(1,202)	39,863
Non-agency	3,393	326	(16)	(19)	(35)	3,684
Total RMBS	44,191	593	(16)	(1,221)	(1,237)	43,547
Commercial mortgage-backed securities (CMBS):						
Agency[(5)]	5,984	28	0	(126)	(126)	5,886
Non-agency	1,713	16	0	(63)	(63)	1,666
Total CMBS	7,697	44	0	(189)	(189)	7,552
Other asset-backed securities (ABS[(6)])	7,405	45	0	(36)	(36)	7,414
Other securities[(7)]	1,957	31	0	(44)	(44)	1,944
Total securities available for sale	$ 63,429	$ 717	$ (16)	$ (1,528)	$ (1,544)	$ 62,602

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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 $100 million and $300 million as of June 30, 2013 and December 31, 2012, respectively, and fair value of $100 million and $302 million as of June 30, 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 $26.0 billion and $22.9 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $25.2 billion and $23.2 billion as of June 30, 2013 and December 31, 2012, respectively. Freddie Mac MBS had an amortized cost of $12.5 billion and $12.6 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $12.3 billion and $12.9 billion as of June 30, 2013 and December 31, 2012, respectively. Ginnie Mae MBS had an amortized cost of $8.0 billion and $9.9 billion as of June 30, 2013 and December 31, 2012, respectively, and a fair value of $7.9 billion and $10.0 billion as of June 30, 2013 and December 31, 2012, respectively.

(6) The other asset-backed securities portfolio was collateralized by approximately 66% credit card loans, 19% auto dealer floor plan inventory loans and leases, 7% auto loans, 6% equipment loans, 1% student loans, and 1% of other assets as of June 30, 2013. In comparison, the distribution was approximately 64% credit card loans, 18% auto dealer floor plan inventory loans and leases, 6% auto loans, 5% equipment loans, 1% student loans, 2% commercial paper, and 4% of other assets as of December 31, 2012. Approximately 87% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of June 30, 2013, compared with 82% as of December 31, 2012.

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

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 June 30, 2013 and December 31, 2012.

	June 30, 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]	$ 118	$ 0	$ 0	$ 0	$ 118	$ 0
Corporate debt securities guaranteed by U.S. government agencies[2]	1,094	(38)	0	0	1,094	(38)
RMBS:						
Agency[3]	27,138	(1,190)	931	(12)	28,069	(1,202)
Non-agency	340	(19)	412	(16)	752	(35)
Total RMBS	27,478	(1,209)	1,343	(28)	28,821	(1,237)
CMBS:						
Agency[3]	3,471	(126)	6	0	3,477	(126)
Non-agency	1,134	(62)	31	(1)	1,165	(63)
Total CMBS	4,605	(188)	37	(1)	4,642	(189)
Other ABS	3,271	(34)	310	(2)	3,581	(36)
Other securities	1,146	(44)	13	0	1,159	(44)
Total securities available for sale in a gross unrealized loss position	$ 37,712	$ (1,513)	$ 1,703	$ (31)	$ 39,415	$ (1,544)

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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 $1.5 billion as of June 30, 2012 relate to 1,369 individual securities. Our investments in non-agency MBS and non-agency asset-backed securities accounted for $134 million, or 9%, of total gross unrealized losses as of June 30, 2013. Of the $1.5 billion gross unrealized losses as of June 30, 2013, $31 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 June 30, 2013:

	June 30, 2013	
(Dollars in millions)	**Amortized Cost**	**Fair Value**
Due in 1 year or less	**$ 1,777**	**$ 1,780**
Due after 1 year through 5 years	**6,680**	**6,684**
Due after 5 years through 10 years	**5,150**	**5,014**
Due after 10 years[1]	**49,822**	**49,124**
Total	**$ 63,429**	**$ 62,602**

(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 June 30, 2013.

	June 30, 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	$ 0	0.00%	$ 840	0.50%	$ 0	0.00%	$ 0	0.00%	$ 840	0.50%
U.S. agency debt obligations[2]	101	4.59	0	0.00	0	0.00	0	0.00	101	4.59
Corporate debt securities guaranteed by U.S. government agencies[3]	0	0.00	202	1.92	988	1.79	14	3.48	1,204	1.83
RMBS:										
Agency[4]	320	3.42	8,232	2.94	26,061	2.45	5,250	2.57	39,863	2.57
Non-agency	66	8.47	1,692	7.55	1,778	8.37	148	8.93	3,684	8.02
Total RMBS	386	4.25	9,924	3.69	27,839	2.78	5,398	2.73	43,547	2.99
CMBS:										
Agency[4]	197	1.62	3,160	1.95	2,521	2.39	8	6.85	5,886	2.14
Non-agency	200	3.64	294	3.40	1,154	3.08	18	3.04	1,666	3.20
Total CMBS	397	2.63	3,454	2.07	3,675	2.61	26	4.10	7,552	2.37
Other ABS	1,221	1.09	5,508	1.06	587	2.94	98	6.31	7,414	1.28
Other securities[5]	840	0.90	439	1.48	540	2.56	125	0.04	1,944	1.47
Total securities available for sale	$ 2,945	1.78%	$ 20,367	2.49%	$ 33,629	2.73%	$ 5,661	2.75%	$ 62,602	2.61%
Amortized cost of securities available for sale	**$ 2,942**		**$ 20,137**		**$ 34,415**		**$ 5,935**		**$ 63,429**	

(1) Yields are calculated based on the amortized cost of each security.
(2) Includes debt securities issued by Fannie Mae and Freddie Mac.
(3) Includes corporate debt securities guaranteed by other U.S. government agencies, such as the Export-Import Bank of the United States.
(4) Includes mortgage-backed securities issued by Fannie Mae, Freddie Mac and Ginnie Mae.
(5) Yields of tax-exempt securities are calculated on a fully taxable-equivalent (FTE) basis.

CAPITAL ONE FINANCIAL CORPORATION

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

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least quarterly, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is a subjective process requiring the use of judgments and assumptions. Accordingly, we consider a number of qualitative and quantitative criteria in our assessment, including the extent and duration of the impairment; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings and the failure of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security; and current market conditions.

We assess and recognize OTTI in accordance with the accounting guidance for recognition and presentation of OTTI. Under this guidance, if we determine that impairment on our debt securities is other-than-temporary and we have made the decision to sell the security or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, we recognize the entire portion of the impairment in earnings. If we have not made a decision to sell the security and we do not expect that we will be required to sell the security prior to recovery of the amortized cost basis, we recognize only the credit component of OTTI in earnings. The remaining unrealized loss due to factors other than credit, or the non-credit component, is recorded in AOCI. We determine the credit component based on the difference between the security s amortized cost basis and the present value of its expected future cash flows, discounted based on the effective yield. The non-credit component represents the difference between the security s fair value and the present value of expected future cash flows.

We recorded net OTTI in earnings totaling $4 million and $13 million for the three months ended June 30, 2013 and 2012, respectively, and $29 million and $27 million for the six months ended June 30, 2013 and 2012, respectively. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled $25 million of unrealized gain and $116 million of unrealized loss as of June 30, 2013 and 2012, respectively. We estimate the portion of losses attributable to credit using a discounted cash flow model and we estimate the expected cash flows from the underlying collateral using internal information to derive key assumptions. This tool takes into consideration security specific delinquencies, product specific delinquency roll rates and expected severities. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

We believe the $1.5 billion gross unrealized losses as of June 30, 2013 related to securities for which we have not recognized OTTI are attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. Therefore, we currently do not expect to incur credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses, and it is not more likely than not that we will be required to sell these securities prior to recovery of their amortized cost. Accordingly, we have concluded that the impairment on these securities is not other than temporary.

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CAPITAL ONE FINANCIAL CORPORATION

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

The table below presents activity for the three and six months ended June 30, 2013 and 2012, related to the credit component of OTTI recognized in earnings on investment debt securities:

(Dollars in millions)	Three Months Ended June 30, 2013	Three Months Ended June 30, 2012	Six Months Ended June 30, 2013	Six Months Ended June 30, 2012
Credit loss component, beginning of period	**$ 145**	$ 82	**$ 120**	$ 68
Additions:				
Initial credit impairment	**3**	9	**11**	10
Subsequent credit impairment	**1**	4	**18**	17
Total additions	**4**	13	**29**	27
Reductions:				
Sales of credit-impaired securities	**0**	0	**0**	0
Total reductions	**0**	0	**0**	0
Credit loss component, end of period	**$ 149**	$ 95	**$ 149**	$ 95

AOCI Related to Securities Available for Sale

The table below presents for the three and six months ended June 30, 2013 and 2012, the changes in AOCI, net of tax, related to our available-for-sale securities. The net unrealized gains (losses) represent the fair value adjustments recorded on available-for-sale securities, net of tax, during the period. The net reclassification adjustment for net realized losses (gains) represents the amount of those fair value adjustments, net of tax, that were recognized in earnings due to the sale of available-for-sale securities.

	Three Months Ended June 30,					
	2013			2012		
(Dollars in millions)	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Beginning balance AOCI related to securities available for sale	**$ 920**	**$ 347**	**$ 573**	$ 480	$ 170	$ 310
Net unrealized gains (losses)	**(1,746)**	**(657)**	**(1,089)**	217	90	127
Net realized gains reclassified from AOCI into earnings	**(1)**	**0**	**(1)**	(30)	(11)	(19)
Ending balance AOCI related to securities available for sale	**$ (827)**	**$ (310)**	**$ (517)**	$ 667	$ 249	$ 418

	Six Months Ended June 30,					
	2013			2012		
(Dollars in millions)	Before Tax	Tax	After Tax	Before Tax	Tax	After Tax
Beginning balance AOCI related to securities available for sale	**$ 1,129**	**$ 426**	**$ 703**	$ 456	$ 170	$ 286
Net unrealized gains (losses)	**(1,953)**	**(735)**	**(1,218)**	252	94	158

Net realized gains reclassified from AOCI into earnings	**(3)**	**(1)**	**(2)**	(41)	(15)	(26)
Ending balance AOCI related to securities available for sale	**$ (827)**	**$ (310)**	**$ (517)**	$ 667	$ 249	$ 418

CAPITAL ONE FINANCIAL CORPORATION

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

Realized Gains and Losses on Securities Available for Sale

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale recognized in earnings for the three and six months ended June 30, 2013 and 2012. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We also present the proceeds from the sale of investment securities available for sale for the periods presented. The investment securities we sold were predominantly agency MBS.

	Three Months Ended June 30,		Six Months Ended June 30,	
(Dollars in millions)	2013	2012	2013	2012
Gross realized investment gains	**$ 3**	$ 32	**$ 6**	$ 49
Gross realized investment losses	**(2)**	(2)	**(3)**	(8)
Net realized gains	**$ 1**	$ 30	**$ 3**	$ 41
Total proceeds from sales	**$ 600**	$ 6,921	**$ 1,320**	$ 14,258

Securities Pledged

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Bank (FHLB) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities with a fair value of $16.9 billion and $13.8 billion as of June 30, 2013 and December 31, 2012, respectively, primarily related to FHLB transaction and Public Fund deposits. We accepted securities with a fair value of $268 million and $238 million as of June 30, 2013 and December 31, 2012, respectively, primarily related to our derivative transactions.

Securities Acquired

Our investment portfolio includes certain securities acquired in the ING Direct acquisition and other securities we purchased that were deemed to be credit impaired as of the purchase date. In accordance with accounting guidance for purchased credit-impaired securities, we recorded these securities a fair value as of the purchase date and determined the contractually required payments due based on the total undiscounted amount of all uncollected principal and interest payments, adjusted for the effect of estimated prepayments. We then estimated the undiscounted cash flows we expect to collect. The difference between the contractually required payments due and the cash flows we expect to collect at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference, which is neither accreted into income nor recorded on our consolidated balance sheet, reflects estimated future credit losses expected to be incurred over the life of the security. The excess of cash flows expected to be collected over the estimated fair value of credit-impaired debt securities at acquisition is referred to as the accretable yield, which is accreted into interest income over the remaining life of the security using the effective interest method. Subsequent to acquisition, we complete quarterly evaluations of expected cash flows. Decreases in expected cash flows attributable to credit result in the recognition of other-than-temporary impairment. Increases in expected cash flows are recognized prospectively over the remaining life of the security as an adjustment to the accretable yield.

CAPITAL ONE FINANCIAL CORPORATION

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

Outstanding Balance and Carrying Value of Acquired Securities

The table below presents the outstanding contractual balance and the carrying value of the acquired credit-impaired investment debt securities as of June 30, 2013:

(Dollars in millions)	June 30, 2013 Purchased Credit-Impaired Securities
Contractual principal and interest	**$ 5,038**
Carrying value	**$ 2,524**

Changes in Accretable Yield of Acquired Securities

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

(Dollars in millions)	Purchased Credit-Impaired Securities
Accretable yield as of December 31, 2011	$ 0
Additions from new acquisitions[1]	1,743
Accretion recognized in earnings	(202)
Reductions due to disposals, transfers, and other non-credit related changes	0
Net reclassifications (to)/from nonaccretable difference	(29)
Accretable yield as of December 31, 2012	$ 1,512
Additions from new acquisitions	**62**
Accretion recognized in earnings	**(120)**
Reductions due to disposals, transfers, and other non-credit related changes	**1**
Net reclassifications (to)/from nonaccretable difference	**(13)**
Accretable yield as of June 30, 2013	**$ 1,442**

(1) Includes securities acquired in the ING Direct acquisition as well as other securities purchased.

NOTE 4 LOANS

Loan Portfolio Composition

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

Loans Acquired in Business Acquisitions

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

CAPITAL ONE FINANCIAL CORPORATION

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

Acquired Loans Accounted for Based on Expected Cash Flows

We use the term acquired loans to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and CCB acquisitions, which are accounted for based on expected cash flows to be collected. Acquired loans accounted for based on expected cash flows to be collected was $32.3 billion as of June 30, 2013, compared with $37.1 billion as of December 31, 2012.

We regularly update our estimate of the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses established subsequent to acquisition, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. We reduced the allowance and provision for credit losses by $16 million for the three months ended June 30, 2013 and reduced the allowance and provision for credit losses by $15 million for the six months ended June 30, 2013 related to certain pools of acquired loans. The cumulative impairment recognized on acquired loans totaled $42 million and $57 million as of June 30, 2013 and December 31, 2012, respectively. The credit performance of the remaining pools has generally been in line with our expectations, and, in some cases, more favorable than expected, which has resulted in the reclassification of amounts from the nonaccretable difference to the accretable yield.

The table below presents the composition of our portfolio of loans held for investment, which includes restricted loans for securitization investors, as of June 30, 2013 and December 31, 2012.

(Dollars in millions)	June 30, 2013	December 31, 2012
Credit Card business:		
Domestic credit card loans	**$ 69,986**	$ 82,328
International credit card loans	**7,820**	8,614
Total credit card loans	**77,806**	90,942
Domestic installment loans	**504**	813
Total credit card	**78,310**	91,755
Consumer Banking business:		
Auto	**29,369**	27,123
Home loan	**39,163**	44,100
Other retail	**3,686**	3,904
Total consumer banking	**72,218**	75,127
Commercial Banking business:[(1)]		
Commercial and multifamily real estate	**18,570**	17,732
Commercial and industrial	**21,170**	19,892
Total commercial lending.	**39,740**	37,624
Small-ticket commercial real estate.	**1,065**	1,196

Total commercial banking	**40,805**	38,820
Other:		
Other loans.	**179**	187
Total loans	**$ 191,512**	$ 205,889

(1) Includes construction loans and land development loans totaling $2.2 billion and $2.1 billion as of June 30, 2013 and December 31, 2012, respectively.

CAPITAL ONE FINANCIAL CORPORATION

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

On February 19, 2013, we announced our agreement with Best Buy Stores, L.P. (Best Buy) to end our contractual credit card relationship early and to sell the Best Buy loan portfolio of private label and co-branded credit card accounts that we acquired in the 2012 U.S. card acquisition to Citibank, N.A. (Citibank). 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.

We transferred the net assets subject to the sale agreement to the held for sale category upon meeting the pertinent criteria for this classification during the first quarter of 2013. The loan portfolio was transferred to held for sale based upon the carrying value of the loans, including the transfer of the allowance for loan losses. All other net assets subject to the sale agreement were transferred to held for sale at fair value less costs to sell. We had total loans held for sale of $6.2 billion and $201 million as of June 30, 2013 and December 31, 2012, respectively. We will continue to recognize interest and fee income on the transferred loans, but will not recognize any impacts from charge-offs and recoveries unless these net charge-offs exceed the associated transferred allowance for loan losses. The amortization and accretion on the related intangibles ceased upon the transfer to the held for sale category.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolios. The level of nonperforming assets represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans.

The following table summarizes the payment status of loans in our total loan portfolio, including an aging of delinquent loans, loans 90 days or more past due continuing to accrue interest and loans classified as nonperforming. We present the information below on the credit performance of our loan portfolio, by major loan category, including key metrics that we use in tracking changes in the credit quality of each of our loan portfolios. The delinquency aging includes all past due loans, both performing and nonperforming, as of June 30, 2013 and December 31, 2012.

Loans 90 days or more past due totaled approximately $1.7 billion and $2.3 billion as of June 30, 2013 and December 31, 2012, respectively. Loans classified as nonperforming totaled $930 million and $1.1 billion as of June 30, 2013 and December 31, 2012, respectively.

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

	June 30, 2013								
(Dollars in millions)	Current	30-59 Days	60-89 Days	³ 90 Days	Total Delinquent Loans	Acquired Loans	Total Loans	³ 90 Days and Accruing[1]	Nonperforming Loans[1]
Credit Card:									
Domestic credit card	$ 68,253	$ 701	$ 454	$ 993	$ 2,148	$ 89	$ 70,490	$ 993	$ 0
International credit card	7,445	148	84	143	375	0	7,820	93	94
Total credit card	75,698	849	538	1,136	2,523	89	78,310	1,086	94
Consumer Banking:									
Auto	27,461	1,253	517	129	1,899	9	29,369	0	128
Home loan	7,040	55	23	249	327	31,796	39,163	0	398
Retail banking	3,599	18	9	22	49	38	3,686	1	40
Total consumer banking	38,100	1,326	549	400	2,275	31,843	72,218	1	566
Commercial Banking:									
Commercial and multifamily real estate	18,260	84	43	78	205	105	18,570	5	96
Commercial and industrial	20,830	55	19	65	139	201	21,170	15	136
Total commercial lending	39,090	139	62	143	344	306	39,740	20	232
Small-ticket commercial real estate	1,046	12	3	4	19	0	1,065	0	12
Total commercial banking	40,136	151	65	147	363	306	40,805	20	244
Other:									
Other loans	114	5	3	20	28	37	179	0	26
Total.	$ 154,048	$ 2,331	$ 1,155	$ 1,703	$ 5,189	$ 32,275	$ 191,512	$ 1,107	$ 930
% of Total loans	80.4%	1.2%	0.6%	0.9%	2.7%	16.9%	100.0%	0.6%	0.5%

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CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2012								
(Dollars in millions)	**Current**	**30-59 Days**	**60-89 Days**	**³ 90 Days**	**Total Delinquent Loans**	**Acquired Loans**	**Total Loans**	**³ 90 Days and Accruing[(1)]**	**Nonperforming Loans[(1)]**
Credit Card:									
Domestic credit card	$ 79,852	$ 932	$ 659	$ 1,410	$ 3,001	$ 288	$ 83,141	$ 1,410	$ 0
International credit card	8,227	145	89	153	387	0	8,614	100	100
Total credit card	88,079	1,077	748	1,563	3,388	288	91,755	1,510	100
Consumer Banking:									
Auto	25,057	1,341	559	149	2,049	17	27,123	0	149
Home loan	7,317	63	29	288	380	36,403	44,100	0	422
Retail banking	3,789	26	10	45	81	34	3,904	1	71
Total consumer banking	36,163	1,430	598	482	2,510	36,454	75,127	1	642
Commercial Banking:									
Commercial and multifamily real estate	17,357	64	77	107	248	127	17,732	2	137
Commercial and industrial	19,525	57	3	75	135	232	19,892	14	133
Total commercial lending	36,882	121	80	182	383	359	37,624	16	270
Small-ticket commercial real estate	1,153	28	9	6	43	0	1,196	0	12
Total commercial banking	38,035	149	89	188	426	359	38,820	16	282
Other:									
Other loans	118	8	5	23	36	33	187	0	30
Total	$ 162,395	$ 2,664	$ 1,440	$ 2,256	$ 6,360	$ 37,134	$ 205,889	$ 1,527	$ 1,054
% of Total loans	78.9%	1.3%	0.7%	1.1%	3.1%	18.0%	100.0%	0.7%	0.5%

(1) Acquired loans are excluded from loans reported as 90 days and still accruing interest and nonperforming loans.

Credit Card

Our credit card loan portfolio is generally highly diversified across millions of accounts and multiple geographies without significant individual exposures. We therefore generally manage credit risk on a portfolio basis. The risk in our credit card portfolio is correlated with broad economic trends, such as unemployment rates, gross domestic product (GDP), and home values, as well as customer liquidity, which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time. The table below displays the geographic profile of our credit card loan portfolio and delinquency statistics as of as of June 30, 2013 and December 31, 2012. We also present comparative net charge-offs for the second quarter and first six months of 2013 and 2012.

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CAPITAL ONE FINANCIAL CORPORATION

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

Credit Card: Risk Profile by Geographic Region and Delinquency Status

	June 30, 2013					
(Dollars in millions)	Loans	% of Total[(1)]	Acquired Loans	% of Total[(1)]	Total	% of Total[(1)]
Domestic credit card and installment loans:						
California	$ 7,637	9.8%	$ 9	0.0%	$ 7,646	9.8%
New York	5,063	6.5	7	0.0	5,070	6.5
Texas	4,779	6.1	7	0.0	4,786	6.1
Florida	4,097	5.2	5	0.0	4,102	5.2
Illinois	3,473	4.4	4	0.0	3,477	4.4
Pennsylvania	3,291	4.2	4	0.0	3,295	4.2
Ohio.	2,845	3.6	4	0.0	2,849	3.6
New Jersey	2,623	3.3	3	0.0	2,626	3.3
Michigan	2,499	3.2	3	0.0	2,502	3.2
Other	34,094	43.6	43	0.1	34,137	43.7
Total domestic credit card and installment loans	70,401	89.9	89	0.1	70,490	90.0
International credit card:						
United Kingdom	3,290	4.2	0	0.0	3,290	4.2
Canada.	4,530	5.8	0	0.0	4,530	5.8
Total international credit card	7,820	10.0	0	0.0	7,820	10.0
Total credit card and installment loans	$ 78,221	99.9%	$ 89	0.1%	$ 78,310	100.0%
Selected credit metrics:						
30+ day delinquencies[(2)]	$ 2,498	3.19%	$ 25	0.03%	$ 2,523	3.22%
90+ day delinquencies[(2)]	1,126	1.44	10	0.01	1,136	1.45

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

	December 31, 2012					
(Dollars in millions)	Loans	% of Total(1)	Acquired Loans	% of Total(1)	Total	% of Total(1)
Domestic credit card and installment loans:						
California	$ 9,245	10.0%	$ 31	0.1%	$ 9,276	10.1%
Texas	5,910	6.5	23	0.0	5,933	6.5
New York	5,846	6.4	23	0.0	5,869	6.4
Florida	4,835	5.3	17	0.0	4,852	5.3
Illinois	4,100	4.5	15	0.0	4,115	4.5
Pennsylvania	3,861	4.2	14	0.0	3,875	4.2
Ohio	3,351	3.6	12	0.0	3,363	3.6
New Jersey	3,060	3.3	10	0.0	3,070	3.3
Michigan	2,917	3.2	11	0.0	2,928	3.2
Other	39,728	43.3	132	0.2	39,860	43.5
Total domestic credit card and installment loans	82,853	90.3	288	0.3	83,141	90.6
International credit card:						
United Kingdom	3,678	4.0	0	0.0	3,678	4.0
Canada	4,936	5.4	0	0.0	4,936	5.4
Total international credit card	8,614	9.4	0	0.0	8,614	9.4
Total credit card and installment loans	$ 91,467	99.7%	$ 288	0.3%	$ 91,755	100.0%
Selected credit metrics:						
30+ day delinquencies(2)	$ 3,326	3.62%	$ 62	0.07%	$ 3,388	3.69%
90+ day delinquencies(2)	1,530	1.67	33	0.03	1,563	1.70

	Three Months Ended June 30,				Six Months Ended June 30,			
	2013		2012		2013		2012	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs:								
Domestic credit card	**$ 749**	**4.28%**	$ 510	2.86%	**$ 1,576**	**4.36%**	$ 1,041	3.32%
International credit card	**101**	**5.08**	112	5.49	**196**	**4.83**	227	5.51
Total(3)	**$ 850**	**4.36%**	$ 622	3.13%	**$ 1,772**	**4.41%**	$ 1,268	3.57%

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

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

(3) Calculated by dividing annualized net charge-offs by average credit card loans held for investment for the three and six months ended June 30, 2013 and 2012.

The 30+ day delinquency rate for our entire credit card loan portfolio decreased to 3.22% as of June 30, 2013, from 3.69% as of December 31, 2012, reflecting underlying credit improvement trends.

CAPITAL ONE FINANCIAL CORPORATION

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

Consumer Banking

Our consumer banking loan portfolio consists of auto, home loan and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio is correlated with broad economic trends, such as unemployment rates, GDP, and home values, as well as customer liquidity, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio. The table below displays the geographic profile of our consumer banking loan portfolio, including acquired loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio, excluding acquired loans, as of June 30, 2013 and December 31, 2012, and net charge-offs for the second quarter and first six months of 2013 and 2012.

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

	June 30, 2013					
	Loans		Acquired Loans		Total	
(Dollars in millions)	Loans	% of Total(1)	Loans	% of Total(1)	Loans	% of Total(1)
Auto:						
Texas	$ 4,491	6.2%	$ 0	0.0%	$ 4,491	6.2%
California	2,991	4.1	0	0.0	2,991	4.1
Florida	1,813	2.5	0	0.0	1,813	2.5
Louisiana	1,621	2.2	0	0.0	1,621	2.2
Georgia	1,518	2.1	0	0.0	1,518	2.1
Illinois	1,197	1.7	0	0.0	1,197	1.7
Ohio	1,137	1.6	0	0.0	1,137	1.6
Other	14,592	20.1	9	0.1	14,601	20.2
Total auto	29,360	40.5	9	0.1	29,369	40.6
Home loan:						
California	1,093	1.5	8,035	11.1	9,128	12.6
New York	1,585	2.2	1,405	1.9	2,990	4.1
Illinois	95	0.1	2,487	3.5	2,582	3.6
Maryland	407	0.6	1,657	2.3	2,064	2.9
New Jersey	375	0.5	1,547	2.2	1,922	2.7
Virginia	337	0.5	1,553	2.1	1,890	2.6
Florida	175	0.2	1,648	2.3	1,823	2.5
Other	3,300	4.6	13,464	18.6	16,764	23.2
Total home loan	7,367	10.2	31,796	44.0	39,163	54.2
Retail banking:						
Louisiana	1,308	1.8	0	0.0	1,308	1.8
New York	845	1.2	0	0.0	845	1.2
Texas	794	1.2	0	0.0	794	1.2
New Jersey	283	0.4	0	0.0	283	0.4
Maryland	110	0.1	20	0.0	130	0.1
Virginia	80	0.1	13	0.0	93	0.1
California	42	0.1	0	0.0	42	0.1

Other	**186**	**0.3**	**5**	**0.0**	**191**	**0.3**
Total retail banking	**3,648**	**5.2**	**38**	**0.0**	**3,686**	**5.2**
Total consumer banking	**$ 40,375**	**55.9%**	**$ 31,843**	**44.1%**	**$ 72,218**	**100.0%**

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CAPITAL ONE FINANCIAL CORPORATION

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

	June 30, 2013							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:[2]								
30+ day delinquencies	**$ 1,899**	**6.46%**	**$ 327**	**0.84%**	**$ 49**	**1.34%**	**$ 2,275**	**3.15%**
90+ day delinquencies	**129**	**0.44**	**249**	**0.64**	**22**	**0.59**	**400**	**0.55**
Nonperforming loans	**128**	**0.44**	**398**	**1.02**	**40**	**1.10**	**566**	**0.78**

	December 31, 2012					
	Loans		Acquired Loans		Total	
(Dollars in millions)	Loans	% of Total[1]	Loans	% of Total[1]	Loans	% of Total[1]
Auto:						
Texas	$ 4,317	5.7%	$ 0	0.0%	$ 4,317	5.7%
California	2,676	3.6	0	0.0	2,676	3.6
Florida	1,621	2.1	0	0.0	1,621	2.1
Louisiana	1,504	2.0	0	0.0	1,504	2.0
Georgia	1,404	1.9	0	0.0	1,404	1.9
Illinois	1,134	1.5	0	0.0	1,134	1.5
Ohio	1,032	1.4	0	0.0	1,032	1.4
Other	13,418	17.8	17	0.1	13,435	17.9
Total auto	27,106	36.0	17	0.1	27,123	36.1
Home loan:						
California	1,168	1.6	9,098	12.1	10,266	13.7
New York	1,678	2.2	1,598	2.1	3,276	4.3
Illinois	102	0.1	2,875	3.8	2,977	3.9
Maryland	403	0.5	1,878	2.5	2,281	3.0
New Jersey	402	0.5	1,717	2.3	2,119	2.8
Virginia	342	0.5	1,748	2.3	2,090	2.8
Florida	183	0.3	1,863	2.5	2,046	2.8
Other	3,419	4.6	15,626	20.8	19,045	25.4
Total home loan	7,697	10.3	36,403	48.4	44,100	58.7
Retail banking:						
Louisiana	1,447	1.9	0	0.0	1,447	1.9
New York	864	1.2	0	0.0	864	1.2
Texas	844	1.1	0	0.0	844	1.1
New Jersey	312	0.4	0	0.0	312	0.4
Maryland	96	0.1	20	0.1	116	0.2
Virginia	78	0.1	9	0.0	87	0.1
California	47	0.1	0	0.0	47	0.1
Other	182	0.2	5	0.0	187	0.2
Total retail banking	3,870	5.1	34	0.1	3,904	5.2

Total consumer banking	$ 38,673	51.4%	$ 36,454	48.6%	$ 75,127	100.0%

CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Credit performance:[2]								
30+ day delinquencies	$ 2,049	7.55%	$ 380	0.86%	$ 81	2.07%	$ 2,510	3.34%
90+ day delinquencies	149	0.55	288	0.65	45	1.15	482	0.64
Nonperforming loans	149	0.55	422	0.96	71	1.82	642	0.85

	Three Months Ended June 30, 2013							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	**$ 92**	**1.28%**	**$ 4**	**0.03%**	**$ 14**	**1.50%**	**$ 110**	**0.60%**

	Three Months Ended June 30, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	$ 68	1.11%	$ 12	0.09%	$ 13	1.27%	$ 93	0.48%

	Six Months Ended June 30, 2013							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	**$ 214**	**1.52%**	**$ 8**	**0.04%**	**$ 31**	**1.68%**	**$ 253**	**0.69%**

	Six Months Ended June 30, 2012							
	Auto		Home Loan		Retail Banking		Total Consumer Banking	
(Dollars in millions)	Amount	Rate	Amount	Rate	Amount	Rate	Amount	Rate
Net charge-offs[3]	$ 147	1.25%	$ 27	0.13%	$ 27	1.33%	$ 201	0.60%

(1) Percentages by geographic region are calculated based on the total held-for-investment consumer banking loans as of the end of the reported period.
(2) Credit performance statistics exclude acquired loans, which were recorded at fair value at acquisition. Although acquired loans may be contractually delinquent, we separately track these loans and do not include them in our delinquency and nonperforming loan statistics as the fair value recorded at acquisition included an estimate of credit losses expected to be realized over the remaining lives of the loans.
(3) Calculated by dividing annualized net charge-offs by average loans held for investment for the three and six months ended June 30, 2013 and 2012.

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices since the home price peak in 2006 and the rise in unemployment. These loan concentrations include loans originated between 2006 and 2008 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards and loans on properties in Arizona, California, Florida and Nevada, which have experienced the most severe decline in home prices. The following table presents the distribution of our home loan portfolio as of June 30, 2013 and

December 31, 2012, based on selected key risk characteristics.

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

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

	June 30, 2013					
	Loans		Acquired Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]	Amount	% of Total[1]
Origination year:						
< = 2005	$ 3,154	8.0%	$ 4,447	11.4%	$ 7,601	19.4%
2006	570	1.5	2,680	6.8	3,250	8.3
2007	409	1.1	5,773	14.7	6,182	15.8
2008	232	0.6	4,657	11.9	4,889	12.5
2009	143	0.4	2,909	7.4	3,052	7.8
2010	164	0.4	4,924	12.6	5,088	13.0
2011	285	0.7	5,418	13.8	5,703	14.5
2012	2,078	5.3	929	2.4	3,007	7.7
2013	332	0.8	59	0.2	391	1.0
Total	$ 7,367	18.8%	$ 31,796	81.2%	$ 39,163	100.0%
Geographic concentration:[2]						
California	$ 1,093	2.8%	$ 8,035	20.5%	$ 9,128	23.3%
New York	1,585	4.0	1,405	3.6	2,990	7.6
Illinois	95	0.2	2,487	6.4	2,582	6.6
Maryland	407	1.1	1,657	4.2	2,064	5.3
New Jersey	375	0.9	1,547	4.0	1,922	4.9
Virginia	337	0.8	1,553	4.0	1,890	4.8
Florida	175	0.5	1,648	4.2	1,823	4.7
Arizona	93	0.2	1,606	4.1	1,699	4.3
Washington	103	0.3	1,508	3.8	1,611	4.1
Colorado	116	0.4	1,346	3.4	1,462	3.8
Other	2,988	7.6	9,004	23.0	11,992	30.6
Total	$ 7,367	18.8%	$ 31,796	81.2%	$ 39,163	100.0%
Lien type:						
1st lien	$ 6,247	16.0%	$ 31,343	80.0%	$ 37,590	96.0%
2nd lien	1,120	2.8	453	1.2	1,573	4.0
Total	$ 7,367	18.8%	$ 31,796	81.2%	$ 39,163	100.0%
Interest rate type:						
Fixed rate	$ 2,422	6.2%	$ 3,462	8.8%	$ 5,884	15.0%
Adjustable rate	4,945	12.6	28,334	72.4	33,279	85.0
Total	$ 7,367	18.8%	$ 31,796	81.2%	$ 39,163	100.0%

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CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2012					
	Loans		Acquired Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]	Amount	% of Total[1]
Origination year:						
< = 2005	$ 3,483	7.9%	$ 4,858	11.0%	$ 8,341	18.9%
2006	621	1.4	2,865	6.5	3,486	7.9
2007	446	1.0	6,189	14.0	6,635	15.0
2008	257	0.6	5,210	11.8	5,467	12.4
2009	167	0.4	3,438	7.8	3,605	8.2
2010	188	0.4	6,024	13.7	6,212	14.1
2011	324	0.7	6,705	15.2	7,029	15.9
2012	2,211	5.1	1,114	2.5	3,325	7.6
Total	$ 7,697	17.5%	$ 36,403	82.5%	$ 44,100	100.0%
Geographic concentration:[2]						
California	$ 1,168	2.7%	$ 9,098	20.6%	$ 10,266	23.3%
New York	1,678	3.8	1,598	3.6	3,276	7.4
Illinois	102	0.2	2,875	6.5	2,977	6.7
Maryland	403	0.9	1,878	4.3	2,281	5.2
New Jersey	402	0.9	1,717	3.9	2,119	4.8
Virginia	342	0.8	1,748	4.0	2,090	4.8
Florida	183	0.4	1,863	4.2	2,046	4.6
Arizona	95	0.2	1,828	4.1	1,923	4.3
Washington	113	0.3	1,766	4.0	1,879	4.3
Colorado	126	0.3	1,594	3.6	1,720	3.9
Other	3,085	7.0	10,438	23.7	13,523	30.7
Total	$ 7,697	17.5%	$ 36,403	82.5%	$ 44,100	100.0%
Lien type:						
1st lien	$ 6,502	14.8%	$ 35,905	81.4%	$ 42,407	96.2%
2nd lien	1,195	2.7	498	1.1	1,693	3.8
Total	$ 7,697	17.5%	$ 36,403	82.5%	$ 44,100	100.0%
Interest rate type:						
Fixed rate	$ 2,534	5.8%	$ 4,037	9.1%	$ 6,571	14.9%
Adjustable rate	5,163	11.7	32,366	73.4	37,529	85.1
Total	$ 7,697	17.5%	$ 36,403	82.5%	$ 44,100	100.0%

(1) Percentages within each risk category calculated based on total held-for-investment home loans.
(2) Represents the ten states in which we have the highest concentration of home loans.

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CAPITAL ONE FINANCIAL CORPORATION

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

Commercial Banking

We evaluate the credit risk of commercial loans individually and use a risk-rating system to determine the credit quality of our commercial loans. We assign internal risk ratings to loans based on relevant information about the ability of borrowers to service their debt. In determining the risk rating of a particular loan, among the factors considered are the borrower s current financial condition, historical credit performance, projected future credit performance, prospects for support from financially responsible guarantors, the estimated realizable value of any collateral and current economic trends. The ratings scale based on our internal risk-rating system is as follows:

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

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

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

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

CAPITAL ONE FINANCIAL CORPORATION

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

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of June 30, 2013 and December 31, 2012.

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

	June 30, 2013							
(Dollars in millions)	Commercial & Multifamily Real Estate	% of Total[1]	Commercial and Industrial	% of Total[1]	Small-ticket Commercial Real Estate	% of Total[1]	Total Commercial	% of Total[1]
Geographic concentration:[2]								
Loans:								
Northeast	$ 13,477	72.6%	$ 5,371	25.3%	$ 647	60.7%	$ 19,495	47.8%
Mid-Atlantic	1,667	9.0	1,247	5.9	40	3.8	2,954	7.2
South	2,164	11.7	9,867	46.6	67	6.3	12,098	29.7
Other	1,157	6.1	4,484	21.2	311	29.2	5,952	14.6
Loans	18,465	99.4	20,969	99.0	1,065	100.0	40,499	99.3
Acquired loans	105	0.6	201	1.0	0	0.0	306	0.7
Total	$ 18,570	100.0%	$ 21,170	100.0%	$ 1,065	100.0%	$ 40,805	100.0%
Internal risk rating:[3]								
Loans:								
Noncriticized	$ 17,841	96.1%	$ 20,283	95.8%	$ 1,044	98.0%	$ 39,168	96.0%
Criticized performing	528	2.8	549	2.6	10	0.9	1,087	2.7
Criticized nonperforming	96	0.5	137	0.6	11	1.1	244	0.6
Loans	18,465	99.4	20,969	99.0	1,065	100.0	40,499	99.3
Acquired loans:								
Noncriticized	77	0.4	181	0.9	0	0.0	258	0.6
Criticized performing	28	0.2	20	0.1	0	0.0	48	0.1
Total acquired loans	105	0.6	201	1.0	0	0.0	306	0.7
Total	$ 18,570	100.0%	$ 21,170	100.0%	$ 1,065	100.0%	$ 40,805	100.0%

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CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2012							
(Dollars in millions)	Commercial & Multifamily Real Estate	% of Total[1]	Commercial and Industrial	% of Total[1]	Small-ticket Commercial Real Estate	% of Total[1]	Total Commercial	% of Total[1]
Geographic concentration:[2]								
Loans:								
Northeast	$ 13,299	75.0%	$ 5,460	27.4%	$ 723	60.5%	$ 19,482	50.2%
Mid-Atlantic	1,398	7.9	1,149	5.8	47	3.9	2,594	6.7
South	2,055	11.6	9,182	46.2	72	6.0	11,309	29.1
Other	853	4.8	3,869	19.4	354	29.6	5,076	13.1
Loans	17,605	99.3	19,660	98.8	1,196	100.0	38,461	99.1
Acquired loans	127	0.7	232	1.2	0	0.0	359	0.9
Total	$ 17,732	100.0%	$ 19,892	100.0%	$ 1,196	100.0%	$ 38,820	100.0%
Internal risk rating:[3]								
Loans:								
Noncriticized	$ 16,614	93.7%	$ 19,073	95.9%	$ 1,152	96.3%	$ 36,839	94.9%
Criticized performing	853	4.8	454	2.3	33	2.8	1,340	3.5
Criticized nonperforming	138	0.8	133	0.6	11	0.9	282	0.7
Loans	17,605	99.3	19,660	98.8	1,196	100.0	38,461	99.1
Acquired loans:								
Noncriticized	77	0.4	228	1.2	0	0.0	305	0.8
Criticized performing	50	0.3	4	0.0	0	0.0	54	0.1
Total acquired loans	127	0.7	232	1.2	0	0.0	359	0.9
Total	$ 17,732	100.0%	$ 19,892	100.0%	$ 1,196	100.0%	$ 38,820	100.0%

(1) Percentages calculated based on total held-for-investment commercial loans in each respective loan category as of the end of the reported period.

(2) Northeast consists of CT, ME, MA, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DE, DC, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MS, MO, NC, SC, TN and TX.

(3) Criticized exposures correspond to the Special Mention, Substandard and Doubtful asset categories defined by banking regulatory authorities.

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CAPITAL ONE FINANCIAL CORPORATION

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

The following table presents information about our impaired loans, excluding acquired loans, which are reported separately and discussed below as of June 30, 2013 and December 31, 2012:

	June 30, 2013							
(Dollars in millions)	**With an Allowance**	**Without an Allowance**	**Total Recorded Investment**	**Related Allowance**	**Net Recorded Investment**	**Unpaid Principal Balance**	**Average Recorded Investment**	**Interest Income Recognized**
Credit card and installment loans:								
Domestic credit card and installment loans	$ 631	$ 0	$ 631	$ 156	$ 475	$ 615	$ 667	$ 33
International credit card and installment loans	168	0	168	102	66	159	170	6
Total credit card and installment loans[1]	799	0	799	258	541	774	837	39
Consumer banking:								
Auto	160	166	326	16	310	543	327	30
Home loan	205	0	205	14	191	242	172	4
Retail banking	79	15	94	12	82	105	95	1
Total consumer banking	444	181	625	42	583	890	594	35
Commercial banking:								
Commercial and multifamily real estate	148	70	218	17	201	258	259	3
Commercial and industrial	143	81	224	19	205	260	234	2
Total commercial lending	291	151	442	36	406	518	493	5
Small-ticket commercial real estate	12	0	12	0	12	16	20	0
Total commercial banking	303	151	454	36	418	534	513	5
Total	$ 1,546	$ 332	$ 1,878	$ 336	$ 1,542	$ 2,198	$ 1,944	$ 79

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CAPITAL ONE FINANCIAL CORPORATION

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

	December 31, 2012							
(Dollars in millions)	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance	Average Recorded Investment	Interest Income Recognized
Credit card and installment loans:								
Domestic credit card and installment loans	$ 701	$ 0	$ 701	$ 230	$ 471	$ 678	$ 687	$ 70
International credit card and installment loans	172	0	172	101	71	164	192	11
Total credit card and installment loans[1]	873	0	873	331	542	842	879	81
Consumer banking:								
Auto	169	159	328	20	308	606	130	31
Home loan	145	0	145	13	132	167	120	4
Retail banking	61	35	96	7	89	118	88	3
Total consumer banking	375	194	569	40	529	891	338	38
Commercial banking:								
Commercial and multifamily real estate	168	112	280	32	248	315	353	8
Commercial and industrial	152	92	244	22	222	277	227	6
Total commercial lending	320	204	524	54	470	592	580	14
Small-ticket commercial real estate	3	11	14	1	13	21	23	0
Total commercial banking	323	215	538	55	483	613	603	14
Total	$ 1,571	$ 409	$ 1,980	$ 426	$ 1,554	$ 2,346	$ 1,820	$ 133

(1) Credit card and installment loans include finance charges and fees.

Troubled debt restructuring (TDR) loans accounted for $1.7 billion and $1.8 billion of impaired loans as of June 30, 2013 and December 31, 2012, respectively. Consumer TDR loans classified as performing totaled $1.0 billion and $1.2 billion as of June 30, 2013 and December 31, 2012, respectively. Commercial TDR loans classified as performing totaled $211 million and $253 million as of June 30, 2013 and December 31, 2012, respectively.

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

As part of our loan modifications to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the types, amounts and financial effects of loans modified and accounted for as troubled debt restructurings during the period:

	Three Months Ended June 30, 2013						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified(1)	% of TDR Activity(2)(8)	Average Rate Reduction(3)	% of TDR Activity(4)(8)	Average Term Extension (Months)(5)	% of TDR Activity(6)(8)	Gross Balance Reduction(7)
Credit card:							
Domestic credit card	$ 78	100%	12.23%	0%	0	0%	$ 0
International credit card	47	100	24.92	0	0	0	0
Total credit card	125	100	17.05	0	0	0	0
Consumer banking:							
Auto	61	29	1.71	52	8	47	25
Home loan	57	12	2.77	5	101	24	2
Retail banking	13	6	3.90	65	8	0	0
Total consumer banking	131	19	2.07	33	15	32	27
Commercial banking:							
Commercial and multifamily real estate	15	0	0.00	75	7	0	0
Commercial and industrial	15	0	0.00	34	5	2	0
Total commercial lending	30	0	0.00	55	6	1	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	30	0	0.00	55	6	1	0
Total	$ 286	52%	14.56%	21%	12	15%	$ 27

CAPITAL ONE FINANCIAL CORPORATION

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

	Six Months Ended June 30, 2013						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1]	% of TDR Activity[2][8]	Average Rate Reduction[3]	% of TDR Activity[4][8]	Average Term Extension (Months)[5]	% of TDR Activity[6][8]	Gross Balance Reduction[7]
Credit card:							
Domestic credit card	$ 154	100%	12.25%	0%	0	0%	$ 0
International credit card	98	100	24.72	0	0	0	0
Total credit card	252	100	17.11	0	0	0	0
Consumer banking:							
Auto	123	30	1.83	54	8	45	50
Home loan	68	20	2.80	12	122	23	3
Retail banking	19	5	3.56	61	8	0	0
Total consumer banking	210	25	2.11	41	19	34	53
Commercial banking:							
Commercial and multifamily real estate	32	0	0.00	88	7	0	0
Commercial and industrial	16	0	0.00	38	5	1	0
Total commercial lending	48	0	0.00	71	7	0	0
Small-ticket commercial real estate	1	0	0.00	0	0	0	0
Total commercial banking	49	0	0.00	70	7	0	0
Total	$ 511	60%	14.55%	24%	16	14%	$ 53

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CAPITAL ONE FINANCIAL CORPORATION

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

	Three Months Ended June 30, 2012						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified(1)	% of TDR Activity(2)(8)	Average Rate Reduction(3)	% of TDR Activity(4)(8)	Average Term Extension (Months)(5)	% of TDR Activity(6)(8)	Gross Balance Reduction(7)
Credit card:							
Domestic credit card	$ 88	100%	11.09%	0%	0	0%	$ 0
International credit card	51	100	24.12	0	0	0	0
Total credit card	139	100	15.88	0	0	0	0
Consumer banking:							
Auto	20	72	1.40	100	10	0	0
Home loan	12	67	2.32	74	108	5	0
Retail banking	7	1	2.99	99	10	0	0
Total consumer banking	39	57	1.73	92	34	2	0
Commercial banking:							
Commercial and multifamily real estate	4	100	1.75	100	30	0	0
Commercial and industrial	32	1	1.36	100	9	0	0
Total commercial lending	36	13	1.71	100	12	0	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	36	13	1.71	100	12	0	0
Total	$ 214	78%	13.57%	33%	23	0%	$ 0

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CAPITAL ONE FINANCIAL CORPORATION

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

	Six Months Ended June 30, 2012						
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1]	% of TDR Activity[2][8]	Average Rate Reduction[3]	% of TDR Activity[4][8]	Average Term Extension (Months)[5]	% of TDR Activity[6][8]	Gross Balance Reduction[7]
Credit card:							
Domestic credit card	$ 145	100%	10.84%	0%	0	0%	$ 0
International credit card	115	100	24.08	0	0	0	0
Total credit card	260	100	15.70	0	0	0	0
Consumer banking:							
Auto	45	71	1.40	100	10	0	0
Home loan	17	55	2.11	67	113	5	0
Retail banking	14	1	3.00	99	11	0	0
Total consumer banking	76	54	1.57	92	27	1	0
Commercial banking:							
Commercial and multifamily real estate	28	16	1.71	100	10	0	0
Commercial and industrial	66	6	6.62	99	12	0	0
Total commercial lending	94	9	4.04	99	11	0	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	94	9	4.04	99	11	0	0
Total	$ 430	72%	13.49%	38%	18	0%	$ 0

(1) Represents total loans modified and accounted for as a TDR during the period. Paydowns, charge-offs and any other changes in the loan carrying value subsequent to the loan entering TDR status are not reflected.
(2) Percentage of loans modified and accounted for as a TDR during the period that were granted a reduced interest rate.
(3) Weighted average interest rate reduction for those loans that received an interest rate concession.
(4) Percentage of loans modified and accounted for as a TDR during the period that were granted a maturity date extension.
(5) Weighted average change in maturity date for those loans that received a maturity date extension.
(6) Percentage of loans modified and accounted for as a TDR during the period that were granted forgiveness or forbearance of a portion of their balance.
(7) Total amount represents the gross balance forgiven. For loans modified in bankruptcy, the gross balance reduction represents collateral value write downs associated with the discharge of the borrower s obligations.
(8) Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

CAPITAL ONE FINANCIAL CORPORATION

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

TDR Subsequent Payment Defaults of Completed TDR Modifications

The following table presents the type, number and amount of loans accounted for as TDRs that experienced a payment default during the period and had completed a modification event in the twelve months prior to the payment default. A payment default occurs if the loan is either 90 days or more delinquent or the loan has been charged-off as of the end of the period presented.

	Three Months Ended June 30, 2013		Six Months Ended June 30, 2013	
(Dollars in millions)	Number of Contracts	Total Loans	Number of Contracts	Total Loans
Credit card:				
Domestic credit card	8,042	$ 16	18,843	$ 37
International credit card[1]	11,935	34	23,128	68
Total credit card	19,977	50	41,971	105
Consumer banking:				
Auto	2,193	16	4,857	32
Home loan	7	0	18	1
Retail banking	24	1	58	2
Total consumer banking	2,224	17	4,933	35
Commercial banking:				
Commercial and multifamily real estate	6	9	7	11
Commercial and industrial	0	1	7	8
Total commercial lending	6	10	14	19
Small-ticket commercial real estate	1	0	1	0
Total commercial banking	7	10	15	19
Total	22,208	$ 77	46,919	$ 159

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

	Three Months Ended June 30, 2012		Six Months Ended June 30, 2012	
(Dollars in millions)	**Number of Contracts**	**Total Loans**	**Number of Contracts**	**Total Loans**
Credit card:				
Domestic credit card	9,541	$ 19	18,170	$ 39
International credit card[1]	12,945	44	25,053	87
Total credit card	22,486	63	43,223	126
Consumer banking:				
Auto	1,033	9	1,865	17
Home loan	31	3	67	6
Retail banking	26	1	69	7
Total consumer banking	1,090	13	2,001	30
Commercial banking:				
Commercial and multifamily real estate	2	6	5	8
Commercial and industrial	3	2	8	15
Total commercial lending	5	8	13	23
Small-ticket commercial real estate	0	0	3	2
Total commercial banking	5	8	16	25
Total	23,581	$ 84	45,240	$ 181

(1) The regulatory regime in the U.K. requires U.K. credit card businesses to accept payment plan proposals even when the proposed payments are less than the contractual minimum amount. As a result, loans entering long-term TDR payment programs in the U.K. typically continue to age and ultimately charge-off even when fully in compliance with the TDR program terms.

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CAPITAL ONE FINANCIAL CORPORATION

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

Outstanding Balance and Carrying Value of Acquired Loans

The table below presents the outstanding contractual balance and the carrying value of loans from the CCB, ING Direct and 2012 U.S. card acquisitions accounted for based on expected cash flows as of June 30, 2013 and December 31, 2012. The table displays separately loans considered credit-impaired at acquisition and loans not considered credit-impaired at acquisition.

	June 30, 2013			December 31, 2012		
(Dollars in millions)	**Total**	**Impaired Loans**	**Non-Impaired Loans**	**Total**	**Impaired Loans**	**Non-Impaired Loans**
Contractual balance	**$ 34,602**	**$ 5,645**	**$ 28,957**	$ 39,321	$ 6,195	$ 33,126
Carrying value[1]	**$ 32,307**	**$ 3,604**	**$ 28,703**	$ 37,109	$ 4,069	$ 33,040

(1) Includes $42 million and $57 million of cumulative impairment as of June 30, 2013 and December 31, 2012, respectively, recorded subsequent to acquisition for acquired loans accounted for based on estimated cash flows expected to be collected over the life of the loans.

Changes in Accretable Yield

We reduced the previously recorded allowance for acquired loans accounted for based on expected cash flows by $16 million and $15 million for the three and six months ended June 30, 2013, respectively, which resulted in a corresponding reduction in our provision for credit losses for the respective periods. As indicated in the above table, the cumulative impairment recorded subsequent to acquisition for acquired loans accounted for based on estimated cash flows expected to be collected totaled $42 million and $57 million as of June 30, 2013 and December 31, 2012, respectively.

The following table presents changes in the accretable yield on loans related to the CCB, ING Direct, and 2012 U.S. card acquisitions:

(Dollars in millions)	**Total Loans**	**Impaired Loans**	**Non-Impaired Loans**
Accretable yield as of December 31, 2011	$ 1,752	$ 1,566	$ 186
Acquired loans accretable yield[1]	5,616	306	5,310
Accretion recognized in earnings	(1,316)	(390)	(926)
Reclassifications from nonaccretable difference for loans with improving cash flows[2] [3]	860	448	412
Reductions in accretable yield for non-credit related changes in expected cash flows[4]	(704)	(31)	(673)
Accretable yield as of December 31, 2012	$ 6,208	$ 1,899	$ 4,309
Accretion recognized in earnings	**(583)**	**(199)**	**(384)**
Reclassifications from nonaccretable difference for loans with improving cash flows[2]	**553**	**327**	**226**
Reductions in accretable yield for non-credit related changes in expected cash flows[4]	**5**	**31**	**(26)**

Accretable yield as of June 30, 2013	**$ 6,183**	**$ 2,058**	**$ 4,125**

(1) Includes revised acquisition date accretable yield for ING Direct acquired loans.
(2) Represents increases in accretable yields for those pools with increases that are primarily the result of improved credit performance.
(3) Includes the implementation of the 2012 OCC update to the Bank Accounting Advisory Series, which requires write-down of performing consumer loans restructured in bankruptcy to collateral value. Includes reductions of $28 million and $44 million for purchased credit-impaired loans and non-impaired loans, respectively.
(4) Represents changes in accretable yields for those pools with reductions that are driven primarily by changes in actual and estimated prepayments.

CAPITAL ONE FINANCIAL CORPORATION

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

Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of arrangements, both by individual customer and in total, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards for all of our credit activities. Unused credit card lines available to our customers totaled $303.2 billion and $298.9 billion as of June 30, 2013 and December 31, 2012, respectively. While these amounts represented the total available unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time.

In addition to available unused credit card lines, we enter into commitments to extend credit that are legally binding conditional agreements having fixed expirations or termination dates and specified interest rates and purposes. These commitments generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value ratios are the same as those for funded transactions and are established based on management s credit assessment of the customer. These commitments may expire without being drawn upon; therefore, the total commitment amount does not necessarily represent future funding requirements. The outstanding unfunded commitments to extend credit, other than credit card lines, were approximately $20.2 billion and $17.5 billion as of June 30, 2013 and December 31, 2012, respectively.

We maintain a reserve for unfunded loan commitments and letters of credit to absorb estimated probable losses related to these unfunded credit facilities in other liabilities on our consolidated balance sheets. See Note 5 Allowance for Loan and Lease Losses below for additional information.

NOTE 5 ALLOWANCE FOR LOAN AND LEASE LOSSES

We maintain an allowance for loan and lease losses that represents management s best estimate of incurred loan and lease 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 value of these loans already reflect a credit component.

In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees, and binding unfunded loan commitments. The provision for unfunded lending commitments is included in the provision for credit losses on our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets.

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 had 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 impact on our future allowance and reserve for unfunded lending commitments for our commercial loan portfolio.

CAPITAL ONE FINANCIAL CORPORATION

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

See Note 1 Summary of Significant Accounting Policies of our 2012 Form 10-K for further discussion on the methodologies and policies for determining our allowance for loan and lease losses for each of our loan portfolio segments.

Allowance for Loan and Lease Losses Activity

The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. The provision for credit losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are included. The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, for the three months ended June 30, 2013 and 2012:

	Three Months Ended June 30, 2013									
	Consumer									
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other[1]	Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
Balance as of March 31, 2013	**$ 3,494**	**$ 528**	**$ 103**	**$ 112**	**$ 743**	**$ 342**	**$ 27**	**$ 4,606**	**$ 85**	**$ 4,691**
Provision for credit losses	**713**	**101**	**(20)**	**(12)**	**69**	**1**	**(5)**	**778**	**(16)**	**762**
Charge-offs	**(1,181)**	**(153)**	**(5)**	**(19)**	**(177)**	**(14)**	**(7)**	**(1,379)**	**0**	**(1,379)**
Recoveries	**331**	**61**	**1**	**5**	**67**	**10**	**2**	**410**	**0**	**410**
Net charge-offs	**(850)**	**(92)**	**(4)**	**(14)**	**(110)**	**(4)**	**(5)**	**(969)**	**0**	**(969)**
Other changes	**(8)**	**0**	**0**	**0**	**0**	**(1)**	**1**	**(8)**	**0**	**(8)**
Balance as of June 30, 2013	**$ 3,349**	**$ 537**	**$ 79**	**$ 86**	**$ 702**	**$ 338**	**$ 18**	**$ 4,407**	**$ 69**	**$ 4,476**

	Six Months Ended June 30, 2013									
	Consumer									
(Dollars in millions)	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer	Commercial	Other[1]	Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
Balance as of December 31, 2012	**$ 3,979**	**$ 486**	**$ 113**	**$ 112**	**$ 711**	**$ 433**	**$ 33**	**$ 5,156**	**$ 35**	**$ 5,191**
Provision for credit losses	**1,456**	**265**	**(26)**	**5**	**244**	**(84)**	**(3)**	**1,613**	**34**	**1,647**
Charge-offs	**(2,443)**	**(335)**	**(12)**	**(44)**	**(391)**	**(26)**	**(15)**	**(2,875)**	**0**	**(2,875)**
Recoveries	**671**	**121**	**4**	**13**	**138**	**15**	**3**	**827**	**0**	**827**
Net charge-offs	**(1,772)**	**(214)**	**(8)**	**(31)**	**(253)**	**(11)**	**(12)**	**(2,048)**	**0**	**(2,048)**
Other changes	**(314)**	**0**	**0**	**0**	**0**	**0**	**0**	**(314)**	**0**	**(314**