CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 05, 2015

UNITED STATES
SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended March 31, 2015
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 (State or Other Jurisdiction of Incorporation or Organization)	54-1719854 (I.R.S. Employer Identification No.)
1680 Capital One Drive, McLean, Virginia (Address of Principal Executive Offices)	22102 (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 ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý 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	ý	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 ý
As of April 30, 2015, there were 546,424,370 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 2014 Annual Report on Form 10-K ("2014 Form 10-K"). Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our unaudited consolidated financial statements as of March 31, 2015 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited consolidated financial statements and related notes in this Report and the more detailed information contained in our 2014 Form 10-K.

INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2015, our principal subsidiaries included:

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

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

We had total loans held for investment of $204.0 billion, deposits of $210.4 billion and stockholders' equity of $45.7 billion as of March 31, 2015, compared with total loans held for investment of $208.3 billion, deposits of $205.5 billion and stockholders' equity of $45.1 billion as of December 31, 2014.

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

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

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

1	Capital One Financial Corporation (COF)

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- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses and national deposit gathering, auto lending and consumer home loan lending and servicing activities.
- Commercial Banking: Consists of our lending, deposit gathering and servicing activities provided to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between $10 million and $1 billion.

Recent Acquisitions and Dispositions

We regularly explore and evaluate opportunities to acquire financial services companies and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy. We also explore opportunities to acquire digital companies and related assets to improve our information technology infrastructure and to deliver on our digital strategy. We also regularly consider the potential disposition of certain assets, branches, partnership agreements or lines of business. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions. We did not have any significant acquisitions or dispositions in 2014 or the first quarter of 2015.

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SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the first quarters of 2015 and 2014 and selected comparative balance sheet data as of March 31, 2015 and December 31, 2014. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been recast to conform to the current period presentation.

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

	Three Months Ended March 31,		
(Dollars in millions, except as noted)	2015	2014	Change
Income statement			
Net interest income	$4,576	$4,350	5%
Non-interest income	1,071	1,020	5
Total net revenue	5,647	5,370	5
Provision for credit losses	935	735	27
Non-interest expense:			
Marketing	375	325	15
Amortization of intangibles	110	143	(23)
Acquisition-related	7	23	(70)
Operating expenses	2,557	2,441	5
Total non-interest expense	3,049	2,932	4
Income from continuing operations before income taxes	1,663	1,703	(2)
Income tax provision	529	579	(9)
Income from continuing operations, net of tax	1,134	1,124	1
Income from discontinued operations, net of tax	19	30	(37)
Net income	1,153	1,154	—
Dividends and undistributed earnings allocated to participating securities	(6)	(5)	20
Preferred stock dividends	(32)	(13)	146
Net income available to common stockholders	$1,115	$1,136	(2)
Common share statistics			
Basic earnings per common share:			
Net income from continuing operations	$2.00	$1.94	3%
Income from discontinued operations	0.03	0.05	(40)
Net income per basic common share	$2.03	$1.99	2
Diluted earnings per common share:			
Net income from continuing operations	$1.97	$1.91	3
Income from discontinued operations	0.03	0.05	(40)
Net income per diluted common share	$2.00	$1.96	2
Weighted average common shares outstanding:			
Basic	550.2	571.0	(4)
Diluted	557.2	580.3	(4)
Dividends paid per common share	$0.30	$0.30	—
Balance sheet (average balances)			
Loans held for investment	$205,194	$193,722	6%
Interest-earning assets	278,427	262,659	6
Total assets	309,401	293,551	5
Interest-bearing deposits	182,998	184,183	(1)
Total deposits	207,851	205,842	1
Borrowings	46,082	35,978	28
Common equity	44,575	42,006	6

Total stockholders’ equity	46,397	42,859	8

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(Dollars in millions, except as noted)	Three Months Ended March 31, 2015		2014		Change	
Selected performance metrics						
Purchase volume[2]	$57,383		$47,434		21%	
Total net revenue margin[3]	8.11	%	8.18	%	(7	)bps
Net interest margin[4]	6.57		6.62		(5	)
Return on average assets	1.47		1.53		(6	)
Return on average tangible assets[5]	1.54		1.62		(8	)
Return on average common equity[6]	9.84		10.53		(69	)
Return on average tangible common equity[7]	15.00		16.83		(183	)
Equity-to-assets ratio	15.00		14.60		40	
Non-interest expense as a % of average loans held for investment[8]	5.94		6.05		(11	)
Efficiency ratio[9]	53.99		54.60		(61	)
Effective income tax rate from continuing operations	31.8		34.0		(220	)
Net charge-offs	$881		$931		(5)%	
Net charge-off rate[10]	1.72	%	1.92	%	(20	)bps
Net charge-off rate (excluding Acquired Loans)[11]	1.93		2.24		(31	)

(Dollars in millions, except as noted)	March 31, 2015		December 31, 2014		Change	
Balance sheet (period end)						
Loans held for investment	$203,978		$ 208,316		(2)%	
Interest-earning assets	275,837		277,849		(1	)
Total assets	306,224		308,167		(1	)
Interest-bearing deposits	185,208		180,467		3	
Total deposits	210,440		205,548		2	
Borrowings	41,029		48,457		(15	)
Common equity	43,908		43,231		2	
Total stockholders' equity	45,730		45,053		2	
Credit quality metrics (period end)						
Allowance for loan and lease losses	$4,405		$ 4,383		1%	
Allowance as a % of loans held for investment ("allowance coverage ratio")	2.16	%	2.10	%	6	bps
Allowance as a % of loans held for investment (excluding Acquired Loans)[11]	2.41		2.36		5	
30+ day performing delinquency rate	2.32		2.62		(30	)
30+ day performing delinquency rate (excluding Acquired Loans)[11]	2.61		2.95		(34	)
30+ day delinquency rate	2.58		2.91		(33	)
30+ day delinquency rate (excluding Acquired Loans)[11]	2.90		3.28		(38	)
Capital ratios						
Common equity Tier 1 capital ratio	12.46	%	12.46	%	—	
Tier 1 risk-based capital ratio	13.22		13.23		(1	)
Total risk-based capital ratio	15.07		15.14		(7	)
Tier 1 leverage ratio	10.66		10.77		(11	)
Tangible common equity ("TCE") ratio[12]	9.83		9.49		34	
Supplementary leverage ratio[13]	9.22		N/A		**	
Others						
Employees (in thousands), period end	47.0		46.0		2%	

** Change is not meaningful

(1) As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related right to reclaim cash collateral or obligation to return cash collateral. See "Note 1—Summary of Significant Accounting Policies" for additional information. Prior period results, excluding regulatory ratios, have been recast to conform to this presentation.

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

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

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

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

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

(7) 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 TCE. Our calculation of return on average TCE may not be comparable to similarly titled measures reported by other companies. See "MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information.

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

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

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

(11) Calculation of ratio adjusted to exclude Acquired Loans. See "MD&A—Glossary and Acronyms" for the definition of Acquired Loans.

(12) The TCE ratio is a non-GAAP measure calculated as TCE divided by tangible assets. See "MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for the calculation of this measure and reconciliation to the comparative GAAP measure.

(13) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital under the Basel III Standardized Approach divided by total leverage exposure. See "MD&A—Capital Management" for additional information.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of $1.2 billion ($2.00 per diluted common share) on total net revenue of $5.6 billion for the first quarter of 2015. In comparison, we reported net income of $1.2 billion ($1.96 per diluted common share) on total net revenue of $5.4 billion for the first quarter of 2014.

Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 12.46% as of both March 31, 2015 and December 31, 2014. We formally entered parallel run for Basel III Advanced Approaches on January 1, 2015. See "Capital Management" below for additional information.

On March 26, 2014, we announced that our Board of Directors had authorized the repurchase of up to $2.5 billion of shares of our common stock (the "2014 Stock Repurchase Program"). As of March 31, 2015, we completed the 2014 Stock Repurchase Program. Additionally, on March 11, 2015, we announced that our Board of Directors had authorized the repurchase of up to $3.125 billion of shares of our common stock (the "2015 Stock Repurchase Program") beginning in the second quarter of 2015 through the end of the second quarter of 2016. The Board of Directors also authorized an increase in the quarterly dividend on our common stock from the current level of $0.30 per share to $0.40 per share. See "Capital Management" below for additional information.

Below are additional highlights of our performance in the first quarter of 2015. These highlights generally are based on a comparison between the results of the first quarters of 2015 and 2014, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of March 31, 2015 compared to our financial condition and credit performance as of December 31, 2014. 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 remained flat at $1.2 billion in the first quarter of 2015 compared to the first quarter of 2014 as the increase in net income from continuing operations was offset by the decrease in net income from discontinued

operations. The increase in net income from continuing operations was driven by (i) an increase in interest income due to growth in our credit card, auto and commercial loan portfolios partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase in non-interest income primarily attributable to higher interchange fees partially offset by lower service charges and other customer-related fees in our Credit Card business. These increases were partially offset by (i) an increase in provision for credit losses due to the change from an allowance release in the first quarter of 2014 to an allowance build in the first quarter of 2015; and (ii) an increase in non-interest expense driven by higher operating and marketing expenses associated with loan growth. The decrease in net income from discontinued operations was due to a smaller release in representation and warranty reserve in the first quarter of 2015.

- Loans Held for Investment: Period-end loans held for investment decreased by $4.3 billion, or 2%, to $204.0 billion as of March 31, 2015 from December 31, 2014, driven by seasonal paydowns in our credit card loan portfolio in our Credit Card business and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business. Average loans held for investment increased by $11.5 billion, or 6%, to $205.2 billion in the first quarter of 2015, compared to the first quarter 2014, primarily due to continued strong auto loan originations

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outpacing the planned run-off of the acquired home loan portfolio in our Consumer Banking business and growth in our commercial and credit card loan portfolios.

- Net Charge-off and Delinquency Statistics: Our net charge-off rate decreased by 20 basis points to 1.72% in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by lower charge-offs in our Credit Card business and average loan growth. The overall low net charge-off rates compared to our historical levels were largely due to continued economic improvement and portfolio seasoning. Our 30+ day delinquency rate declined to 2.58% as of March 31, 2015 from 2.91% as of December 31, 2014, primarily due to seasonally lower delinquency inventories. We provide additional information on our credit quality metrics below under "Business Segment Financial Performance" and "Credit Risk Profile."
- Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by $22 million to $4.4 billion as of March 31, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by portfolio-specific risks in our commercial loan portfolio in our Commercial Banking business and loan growth in our auto loan portfolio in our Consumer Banking business, partially offset by an allowance release as credit improved in our credit card loan portfolio in our Credit Card business. The allowance coverage ratio increased by 6 basis points to 2.16% as of March 31, 2015 from December 31, 2014.
- Representation and Warranty Reserve: The mortgage representation and warranty reserve decreased by $58 million to $673 million as of March 31, 2015 from December 31, 2014. The decrease in the representation and warranty reserve was primarily driven by claims paid and legal developments, which includes settlements. We recorded a net benefit for mortgage representation and warranty losses of $18 million (which includes a provision of $1 million before taxes in continuing operations and a benefit of $19 million before taxes in discontinued operations) in the first quarter of 2015.

Business Segment Financial Performance

Table 2 summarizes our business segment results, which we report based on revenue and income from continuing operations, net of tax, for the first quarters of 2015 and 2014. We provide information on the allocation methodologies used to derive our business segment results under "Note 19—Business Segments" in our 2014 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the United States of America ("U.S. GAAP") results in "Note 13—Business Segments" of this Report.

Table 2: Business Segment Results

	Three Months Ended March 31,							
	2015				2014			
	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	$3,482	62 %	$668	59 %	$3,310	62 %	$668	60 %
Consumer Banking	1,592	28	266	23	1,583	30	330	29
Commercial Banking[3]	575	10	155	14	508	9	137	12
Other[4]	(2)	—	45	4	(31)	(1)	(11)	(1)
Total from continuing operations	$5,647	100 %	$1,134	100 %	$5,370	100 %	$1,124	100 %

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

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

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

(4) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expense that do not directly support the operations of the business segments, and other items as described

in “Note 19—Business Segments” in our 2014 Form 10-K.

- Credit Card: Net income from continuing operations in our Credit Card business was flat at $668 million in the first quarter of 2015, compared to the first quarter of 2014, due to higher net interest income primarily driven by loan growth and higher non-interest income attributable to interchange fees, offset by lower service charges and customer-related fees, higher

provision for credit losses and higher non-interest expense. Period-end loans held for investment in our Credit Card business decreased by $4.1 billion to $81.8 billion as of March 31, 2015 from December 31, 2014, primarily due to expected seasonal paydowns.

- Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $266 million in the first quarter of 2015, compared to net income from continuing operations of $330 million in the first quarter of 2014. The decrease in net income was primarily attributable to an allowance build in the first quarter of 2015 compared to a release in the first quarter of 2014 and higher non-interest expenses largely driven by higher infrastructure spending in our retail banking business and growth in our auto loan portfolio. The decrease was partially offset by higher net interest income generated by growth in our auto loan portfolio partially offset by the planned run-off of the acquired home loan portfolio. Period-end loans held for investment in our Consumer Banking business decreased by $60 million to $71.4 billion as of March 31, 2015 from December 31, 2014, primarily due to the continued run-off of our acquired home loan portfolio mostly offset by growth in the auto loan portfolio.
- Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $155 million in the first quarter of 2015 compared to net income from continuing operations of $137 million in the first quarter of 2014. The increase in net income was primarily due to higher revenue net of related operating expenses driven by the growth in our average commercial loan portfolio, as well as increased fee-based services and products, partially offset by a larger allowance build. Period-end loans held for investment in our Commercial Banking business decreased by $149 million to $50.7 billion as of March 31, 2015 from December 31, 2014.

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 2014 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Except as otherwise disclosed, forward-looking statements do not reflect: (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed, or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See “Forward-Looking Statements” in this Report for more information on forward-looking statements included in this Report and “Part I—Item 1A. Risk Factors” in our 2014 Form 10-K for factors that could materially influence our results.

Total Company Expectations

We delivered attractive risk-adjusted returns in the first quarter of 2015, and we expect that will continue. For full-year 2015, we expect growth in revenues compared to 2014, driven by growth in average loans. We expect the full-year 2015 efficiency ratio to be at the higher end of a range between 53.5% and 54.5%, or possibly modestly above that range, excluding non-recurring items. We are experiencing very strong Domestic Card growth, and we are likely to increase marketing to take advantage of the opportunities we see to help sustain the current trajectory. While growth opportunities would drive long-term value creation, higher marketing and the higher operating expense of additional volumes would put pressure on our efficiency ratio. We also expect that the ratio will vary, perhaps significantly, from quarter to quarter based on factors such as day count, the timing of growth and associated revenues, and the timing of investments throughout the year.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. Pursuant to our approved 2015 capital plan, we increased our quarterly common stock dividend from $0.30 per share to $0.40 per share starting in the second quarter of 2015. We also expect to repurchase up to $3.125 billion of shares of our common stock pursuant to the 2015 Stock Repurchase Program beginning in the second quarter of 2015 through the second quarter of 2016. The timing and exact amount of any common stock repurchases will depend on various

factors, including market conditions, opportunities for growth, and our capital position and amount of retained earnings. The 2015 Stock Repurchase Program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See "MD&A—Capital Management—Dividend Policy and Stock Purchases" for more information.

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Business Segment Expectations

Credit Card: In our Domestic Card business, as first quarter delinquency favorability rolls through to charge-offs, we expect quarterly charge-off rates in the lower end of our previously communicated mid-to-high 3% range, perhaps even getting into the low 3% range at the third quarter seasonal low point. Longer term, as new loan balances season, we expect growth to put upward pressure on the charge-off rate. While this impact on the charge-off rate is modest at first, we expect that the impact will grow throughout 2015 and beyond. We expect growth to drive our quarterly charge-off rate to be in the mid-to-high three percent range in the fourth quarter, and higher from there in 2016. In addition, we expect growth to drive allowance additions going forward. In the near term, we also expect favorable credit to drive lower-than-expected past due fees, putting modest pressure on revenue. We believe that our Credit Card business is well-positioned to deliver growth with attractive and resilient returns.

Consumer Banking: In our Consumer Banking business, we continue to experience a change in product mix as a result of continued growth in auto originations offset by the planned run-off of our acquired home loan portfolio. While our auto business remains well-positioned, we remain cautious and continue to closely monitor pricing, underwriting practices, used vehicle prices and other competitor and market factors. Returns on new auto originations are lower than returns in the overall auto loan portfolio, but remain resilient and within ranges that support an attractive business. We expect to continue to pursue opportunities in our auto business that are consistent with our long-standing focus on resilience, including adding new relationships with well-qualified dealers and gaining a greater share of originations with existing dealers. We expect persistently low interest rates will continue to pressure returns in our deposit businesses, even if rates begin to rise in 2015.

Commercial Banking: Commercial charge-offs, non-performing loans and criticized loans remain strong. While we continue to closely manage credit risk, we do not expect these levels to be sustainable through the cycle. Our Commercial Banking business is well-positioned to navigate a challenging environment, in which intense competition continues to put pressure on growth, margins and returns.

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 amount of assets, liabilities, income and expenses on 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 2014 Form 10-K.

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

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

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

We provide additional information on our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2014 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Derivative Assets and Liabilities

8	Capital One Financial Corporation (COF)

As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), for instruments executed with the same counterparty where a right of setoff exists. This newly adopted policy is preferable as it more accurately reflects the Company's counterparty credit risk as well as our contractual rights and obligations under these arrangements. Further, this change will align our presentation with that of the majority of our peer institutions. We retrospectively adopted this change in accounting principle and our consolidated balance sheet has been recast for all prior periods presented.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the first quarters of 2015 and 2014. 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, including certain fees, earned on our interest-earning assets and the interest expense on our interest-bearing liabilities. Interest-earning assets include loans, investment securities and other interest-earning assets and interest-bearing liabilities include interest-bearing deposits, securitized debt obligations, senior and subordinated notes, and other borrowings. Generally, we include in interest income any past due fees on loans that we deem collectible. Our net interest margin, based on our consolidated results, represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and foreign exchange rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

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Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for the first quarters of 2015 and 2014.

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

	Three Months Ended March 31,					
	2015			2014		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	$74,875	$ 2,660	14.21 %	$69,800	$ 2,478	14.20 %
International credit card	7,811	291	14.90	7,690	319	16.59
Total credit card	82,686	2,951	14.28	77,490	2,797	14.44
Consumer banking	71,595	1,120	6.26	70,836	1,094	6.18
Commercial banking	51,461	415	3.23	45,561	395	3.47
Other	112	54	192.86	133	21	63.16
Total loans, including loans held for sale	205,854	4,540	8.82	194,020	4,307	8.88
Investment securities	63,181	406	2.57	62,124	416	2.68
Cash equivalents and other interest-earning assets	9,392	28	1.19	6,515	30	1.84
Total interest-earning assets	$278,427	$ 4,974	7.15	$262,659	$ 4,753	7.24
Cash and due from banks	3,099			2,881		
Allowance for loan and lease losses	(4,371)			(4,306)		
Premises and equipment, net	3,701			3,838		
Other assets	28,545			28,479		
Total assets	$309,401			$293,551		
Liabilities and stockholders’ equity:						
Interest-bearing liabilities:						
Deposits	$182,998	$ 271	0.59	$184,183	$ 276	0.60
Securitized debt obligations	11,563	33	1.14	10,418	38	1.46
Senior and subordinated notes	20,595	79	1.53	14,162	77	2.17
Other borrowings and liabilities	14,721	15	0.41	11,398	12	0.42
Total interest-bearing liabilities	$229,877	$ 398	0.69	$220,161	$ 403	0.73
Non-interest bearing deposits	24,853			21,659		
Other liabilities	8,274			8,872		
Total liabilities	263,004			250,692		
Stockholders’ equity	46,397			42,859		
Total liabilities and stockholders’ equity	$309,401			$293,551		
Net interest income/spread		$ 4,576	6.46		$ 4,350	6.51
Impact of non-interest bearing funding			0.11			0.11
Net interest margin			6.57 %			6.62 %

[1] As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related right to reclaim cash collateral or obligation to return cash collateral. See “Note 1—Summary of Significant Accounting Policies” for additional

information. Prior period results have been recast to conform to this presentation.

(2) Past due fees included in interest income totaled approximately $354 million and $359 million in the first quarters of 2015 and 2014, respectively.

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

Net interest income increased by $226 million or 5%, to $4.6 billion in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by higher average interest-earning assets due to continued strong growth in our auto, commercial and credit

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card loan portfolios. The net interest margin decreased 5 basis points to 6.57% in the first quarter of 2015 primarily attributable to lower yield on average interest earning assets, partially offset by lower cost of funds.
Table 4 displays the change in our net interest income between periods and the extent to which the variance is attributable to: (i) changes in the volume of our interest-earning assets and interest-bearing liabilities; or (ii) changes in the interest rates related to these assets and liabilities.
Table 4: Rate/Volume Analysis of Net Interest Income[(1)]

	Three Months Ended March 31, 2015 vs. 2014		
(Dollars in millions)	Total Variance	Volume	Rate
Interest income:			
Loans:			
Credit card	$154	$185	$(31)
Consumer banking	26	12	14
Commercial banking	20	47	(27)
Other	33	(3)	36
Total loans, including loans held for sale	233	241	(8)
Investment securities	(10)	7	(17)
Cash equivalents and other interest-earning assets	(2)	9	(11)
Total interest income	221	257	(36)
Interest expense:			
Deposits	(5)	(2)	(3)
Securitized debt obligations	(5)	3	(8)
Senior and subordinated notes	2	25	(23)
Other borrowings and liabilities	3	4	(1)
Total interest expense	(5)	30	(35)
Net interest income	$226	$227	$(1)

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

Non-Interest Income

Non-interest income primarily consists of interchange income net of rewards expense, service charges and other customer-related fees, and other non-interest income. Other non-interest income includes the pre-tax net benefit (provision) for mortgage representation and warranty losses related to continuing operations. It also includes gains and losses from the sale of investment securities, gains and losses on derivatives not accounted for in hedge accounting relationships, 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.

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Table 5 displays the components of non-interest income for the first quarters of 2015 and 2014.

Table 5: Non-Interest Income

	Three Months Ended March 31,	
(Dollars in millions)	2015	2014
Service charges and other customer-related fees	$437	$474
Interchange fees, net	496	440
Net other-than-temporary impairment recognized in earnings	(15)	(5)
Other non-interest income:		
Provision for mortgage representation and warranty losses[1]	(1)	(14)
Net gains from the sale of investment securities	2	13
Net fair value gains on free-standing derivatives	10	13
Other	142	99
Total other non-interest income	153	111
Total non-interest income	$1,071	$1,020

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

Non-interest income increased by $51 million, or 5%, to $1.1 billion in the first quarter of 2015 compared to the first quarter 2014. The main drivers for the increase in non-interest income include (i) an increase in interchange fees due to strong purchase volume in our Credit Card business; (ii) higher other non-interest income driven by growth in our commercial and multifamily real estate business; and (iii) lower provision for mortgage representation and warranty losses. The increase was partially offset by other customer-related fees in our Credit Card business.

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $935 million and $735 million in the first quarters of 2015 and 2014, respectively. The provision for credit losses as a percentage of net interest income was 20.4% and 16.9%, in the first quarters of 2015 and 2014, respectively.

The increase in the provision for credit losses of $200 million in the first quarter of 2015 compared to the first quarter of 2014, was primarily due to (i) a smaller release in the allowance for loan and lease losses in our credit card portfolio, partially offset by lower net charge-offs; (ii) a larger allowance build and higher net charge-offs due to the growth in our auto loan portfolio; and (iii) a larger allowance build in our commercial loan portfolio attributable to portfolio-specific risks.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses within "Credit Risk Profile—Summary of Allowance for Loan and Lease Losses," "Note 4—Loans" and "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 2014 Form 10-K.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing expenses and other miscellaneous expenses, as well as marketing costs and amortization of intangibles.

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Table 6 displays the components of non-interest expense for the first quarters of 2015 and 2014.
Table 6: Non-Interest Expense

	Three Months Ended March 31,	
(Dollars in millions)	2015	2014
Salaries and associate benefits	$1,211	$1,161
Occupancy and equipment	435	405
Marketing	375	325
Professional services	296	287
Communications and data processing	202	196
Amortization of intangibles	110	143
Other non-interest expense:		
Collections	84	99
Fraud losses	67	73
Bankcard, regulatory and other fee assessments	109	113
Other	160	130
Other non-interest expense	420	415
Total non-interest expense	$3,049	$2,932

Non-interest expense increased by $117 million, or 4%, to $3.0 billion in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by (i) higher expenses related to technology and digital investments; (ii) higher marketing and operating expenses attributable to growth in our auto, commercial and credit card loan portfolios; and (iii) higher provision for litigation matters. These increases were partially offset by a decline in the amortization of intangibles.

Income from Discontinued Operations, Net of Tax

Income from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was closed in 2007. Income from discontinued operations, net of tax, was $19 million in the first quarter of 2015, compared to $30 million in the first quarter of 2014. We recorded a total pre-tax benefit for mortgage representation and warranty reserve of $19 million ($12 million net of tax) in the first quarter of 2015, compared to $47 million ($30 million net of tax) in the first quarter of 2014.

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

Income Taxes

We recorded income tax provisions of $529 million (31.8% effective income tax rate) and $579 million (34.0% effective income tax rate) in the first quarters of 2015 and 2014, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the first quarter of 2015, from the first quarter of 2014, was primarily attributable to increased net tax credits and reduced discrete tax expense. We recorded discrete tax expense of $28 million in the first quarter of 2014 for certain state law changes that required a reduction of deferred tax assets and adjustments for the resolution of certain tax issues and audits. In comparison, we recorded net discrete tax expense of $2 million in the first quarter of 2015. Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 31.7% and 32.4% in the first quarters of 2015 and 2014, respectively.

We provide additional information on items affecting our income taxes and effective tax rate under “Note 17—Income Taxes” in our 2014 Form 10-K.

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BUSINESS SEGMENT FINANCIAL PERFORMANCE

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

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We provide additional information on the allocation methodologies used to derive our business segment results in "Note 19—Business Segments" in our 2014 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 services companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP.

Below we summarize our business segment results for the first quarters of 2015 and 2014 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of March 31, 2015 compared to December 31, 2014. We provide a reconciliation of our total business segment results to our reported consolidated results in "Note 13—Business Segments." Additionally, we provide information on the outlook for each of our business segments as described above under "Executive Summary and Business Outlook."

Credit Card Business

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

Our Credit Card business generated net income from continuing operations of $668 million in both the first quarters of 2015 and 2014.

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

Table 7: Credit Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	2015	2014	Change
Selected income statement data:			
Net interest income	$2,666	$ 2,525	6 %
Non-interest income	816	785	4
Total net revenue[1]	3,482	3,310	5
Provision for credit losses	669	558	20
Non-interest expense	1,776	1,726	3
Income from continuing operations before income taxes	1,037	1,026	1
Income tax provision	369	358	3
Income from continuing operations, net of tax	$668	$ 668	—
Selected performance metrics:			
Average loans held for investment[2]	$82,581	$ 77,502	7
Average yield on loans held for investment[3]	14.30 %	14.43 %	(13)bps
Total net revenue margin[4]	16.87	17.08	(21)
Net charge-offs	$719	$ 780	(8)%
Net charge-off rate	3.48 %	4.02 %	(54)bps
Card loan premium amortization and other intangible accretion[5]	$11	$ 37	(70)%
Purchased credit card relationship (“PCCR”) intangible amortization	84	98	(14)
Purchase volume[6]	57,383	47,434	21

(Dollars in millions)	March 31, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment[2]	$81,754	$ 85,876	(5)%
30+ day performing delinquency rate	2.91 %	3.24 %	(33)bps
30+ day delinquency rate	2.97	3.30	(33)
Nonperforming loan rate	0.08	0.08	—
Allowance for loan and lease losses	$3,130	$ 3,204	(2)%
Allowance coverage ratio[7]	3.83 %	3.73 %	10 bps

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(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 $147 million and $163 million in the first quarters of 2015 and 2014, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $190 million and $216 million as of March 31, 2015 and December 31, 2014, respectively.

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

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(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. Interest income also includes interest income on loans held for sale.

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

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

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

Key factors affecting the results of our Credit Card business for the first quarter of 2015, compared to the first quarter of 2014, and changes in financial condition and credit performance between March 31, 2015 and December 31, 2014 include the following:

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- Net Interest Income: Net interest income increased by $141 million, or 6%, to $2.7 billion in the first quarter of 2015. The increase in net interest income was primarily driven by loan growth in the Domestic Card business.
- Non-Interest Income: Non-interest income increased by $31 million, or 4%, to $816 million in the first quarter of 2015. The increase was primarily attributable to an increase in interchange fees driven by higher purchase volume, partially offset by a decline in service charges and other customer-related fees in our Credit Card business.
- Provision for Credit Losses: The provision for credit losses increased by $111 million, or 20%, to $669 million in the first quarter of 2015. The increase was primarily due to a smaller release in the allowance for loan and lease losses in our Domestic Card business, partially offset by lower net charge-offs across the Credit Card business.
- Non-Interest Expense: Non-interest expense increased by $50 million, or 3%, to $1.8 billion in the first quarter of 2015. The increase was largely due to higher marketing expenses associated with loan growth, partially offset by lower operating expenses and lower PCCR intangible amortization.
- Loans Held for Investment: Period-end loans held for investment decreased by $4.1 billion, or 5%, to $81.8 billion as of March 31, 2015 from December 31, 2014, primarily due to expected seasonal paydowns. Average loans held for investment increased by $5.1 billion, or 7%, to $82.6 billion in the first quarter of 2015 compared to first quarter of 2014, primarily due to loan growth in the Domestic Card business.
- Net Charge-off and Delinquency Statistics: Our net charge-off rate decreased by 54 basis points to 3.48% in the first quarter of 2015 compared to the first quarter of 2014 largely due to loan growth, continued economic improvement and portfolio seasoning. The 30+ day delinquency rate decreased 33 basis points to 2.97% as of March 31, 2015 from December 31, 2014 due to seasonally lower delinquency inventories.

Domestic Card Business

Domestic Card generated net income from continuing operations of $621 million and $595 million in the first quarters of 2015 and 2014, respectively. Domestic Card accounted for 91% of total net revenues of our Credit Card business in the first quarter of 2015 compared to 89% in the first quarter of 2014. Income attributable to Domestic Card represented 93% of net income for our Credit Card business in the first quarter of 2015, compared to 89% in the first quarter of 2014.

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

Table 7.1: Domestic Card Business Results

	Three Months Ended March 31,					
(Dollars in millions)	2015		2014		Change	
Selected income statement data:						
Net interest income	$2,421		$ 2,255		7%	
Non-interest income	743		702		6	
Total net revenue[1]	3,164		2,957		7	
Provision for credit losses	610		486		26	
Non-interest expense	1,580		1,545		2	
Income from continuing operations before income taxes	974		926		5	
Income tax provision	353		331		7	
Income from continuing operations, net of tax	$621		$ 595		4	
Selected performance metrics:						
Average loans held for investment[2]	$74,770		$ 69,810		7	
Average yield on loans held for investment[3]	14.23	%	14.19	%	4	bps
Total net revenue margin[4]	16.93		16.94		(1	)
Net charge-offs	$664		$ 700		(5)%	
Net charge-off rate	3.55	%	4.01	%	(46	)bps
Card loan premium amortization and other intangible accretion[5]	$11		$ 37		(70)%	
PCCR intangible amortization	84		98		(14	)
Purchase volume[6]	52,025		44,139		18	

(Dollars in millions)	March 31, 2015		December 31, 2014		Change	
Selected period-end data:						
Loans held for investment[2]	$74,131		$ 77,704		(5)%	
30+ day delinquency rate	2.92	%	3.27	%	(35	)bps
Allowance for loan and lease losses	$2,824		$ 2,878		(2)%	
Allowance coverage ratio[7]	3.81	%	3.70	%	11	bps

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(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.

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

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. Interest income includes interest income on loans held for sale.

(4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

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

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

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results discussed above are similar to the key factors affecting our total Credit Card business. The primary driver of the increase in net income for our Domestic Card business in the first quarter of 2015, compared to the first quarter of 2014, was higher revenue primarily driven by loan growth partially offset by higher provision for credit losses largely due to a smaller release in the allowance for loan and lease losses.

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International Card Business

International Card generated net income from continuing operations of $47 million and $73 million in the first quarters of 2015 and 2014, respectively. Income attributable to International Card represented 7% of net income for our Credit Card business in the first quarter of 2015, compared to 11% for the first quarter of 2014. The decrease was primarily due to the impact of foreign exchange rates driven by strengthening of the U.S. dollar and higher operating expenses from new and expanded partnerships in Canada partially offset by lower provision for credit losses due to a renegotiated partnership arrangement with a retail partner.

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

Table 7.2: International Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	2015	2014	Change
Selected income statement data:			
Net interest income	$245	$ 270	(9)%
Non-interest income	73	83	(12)
Total net revenue	318	353	(10)
Provision for credit losses	59	72	(18)
Non-interest expense	196	181	8
Income from continuing operations before income taxes	63	100	(37)
Income tax provision	16	27	(41)
Income from continuing operations, net of tax	$47	$ 73	(36)
Selected performance metrics:			
Average loans held for investment[(1)]	$7,811	$ 7,692	2
Average yield on loans held for investment[(2)]	14.93 %	16.64 %	(171)bps
Total net revenue margin[(3)]	16.31	18.38	(207)
Net charge-offs	$55	$ 80	(31)%
Net charge-off rate	2.80 %	4.17 %	(137)bps
Purchase volume[(4)]	$5,358	$ 3,295	63 %

(Dollars in millions)	March 31, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment[(1)]	$7,623	$ 8,172	(7)%
30+ day performing delinquency rate	2.81 %	2.94 %	(13)bps
30+ day delinquency rate	3.44	3.60	(16)
Nonperforming loan rate	0.84	0.86	(2)
Allowance for loan and lease losses	$306	$ 326	(6)%
Allowance coverage ratio[(5)]	4.02 %	3.99 %	3 bps

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

(2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

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

(4)

Consists of international card purchase transactions, net of returns for the period. Excludes cash advance and balance transfer transactions.

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

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Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of $266 million and $330 million in the first quarters of 2015 and 2014, respectively.

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

Table 8: Consumer Banking Business Results

	Three Months Ended March 31,		
(Dollars in millions)	2015	2014	Change
Selected income statement data:			
Net interest income	$1,434	$1,433	—
Non-interest income	158	150	5
Total net revenue	1,592	1,583	1
Provision for credit losses	206	140	47
Non-interest expense	970	930	4
Income from continuing operations before income taxes	416	513	(19)
Income tax provision	150	183	(18)
Income from continuing operations, net of tax	$266	$330	(19)
Selected performance metrics:			
Average loans held for investment:[1]			
Auto	$38,387	$32,387	19
Home loan	29,493	34,646	(15)
Retail banking	3,561	3,630	(2)
Total consumer banking	$71,441	$70,663	1
Average yield on loans held for investment[2]	6.26 %	6.18 %	8 bps
Average deposits	$169,593	$168,676	1%
Average deposit interest rate	0.57 %	0.57 %	—
Core deposit intangible amortization	$22	$30	(27)%
Net charge-offs	159	148	7
Net charge-off rate	0.89 %	0.84 %	5 bps
Net charge-off rate (excluding Acquired Loans)	1.30	1.37	(7)
Auto loan originations	$5,185	$4,727	10 %

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(Dollars in millions)	March 31, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment:[1]			
Auto	$38,937	$ 37,824	3 %
Home loan	28,905	30,035	(4)
Retail banking	3,537	3,580	(1)
Total consumer banking	$71,379	$ 71,439	—
30+ day performing delinquency rate	2.95 %	3.60 %	(65)bps
30+ day performing delinquency rate (excluding Acquired Loans)[3]	4.27	5.34	(107)
30+ day delinquency rate	3.46	4.23	(77)
30+ day delinquency rate (excluding Acquired Loans)[3]	5.02	6.28	(126)
Nonperforming loans rate	0.67	0.77	(10)
Nonperforming loans rate (excluding Acquired Loans)[3]	0.98	1.14	(16)
Nonperforming asset rate[4]	0.95	1.06	(11)
Nonperforming asset rate (excluding Acquired Loans)[3]	1.37	1.57	(20)
Allowance for loan and lease losses	$826	$ 779	6 %
Allowance coverage ratio[5]	1.16 %	1.09 %	7 bps
Deposits	$172,502	$ 168,078	3 %
Loans serviced for others	6,784	6,701	1

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(1) The period-end consumer banking loans held for investments includes Acquired Loans with carrying values of $22.2 billion and $23.3 billion as of March 31, 2015 and December 31, 2014, respectively. The average balance of consumer banking loans held for investment includes Acquired Loans of $22.6 billion and $27.5 billion in the first quarters of 2015 and 2014, respectively.

(2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(3) See “Credit Risk Profile” and “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for additional information on the impact of Acquired Loans on our credit quality metrics.

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

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

Key factors affecting the results of our Consumer Banking business for the first quarter of 2015, compared to the first quarter of 2014, and changes in financial condition and credit performance between March 31, 2015 and December 31, 2014 include the following:

- Net Interest Income: Net interest income remained flat at $1.4 billion in the first quarter of 2015 as the higher net interest income generated by the growth in our auto loan portfolio was offset by the lower net interest income from our home loan portfolio attributable to the planned run-off of the acquired portfolio and margin compression in auto.

Consumer Banking yields increased by 8 basis points to 6.3% in the first quarter of 2015 compared to the first quarter of 2014. The increase was driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and the run-off of the acquired home loan portfolio. The increase in our auto loan portfolio in relation to our total consumer banking loan portfolio drove an increase in the total Consumer Banking yield, even as the average yield on auto loans decreased by 74 basis points to 8.2% in the first quarter of 2015. This decrease was primarily attributable to a shift to a higher proportion of prime auto loans and increased competition in the auto business. The average yield on the home loan portfolio increased by 16 basis points to 3.9% in the first quarter of

2015, driven by an increase in expected cash flows as a result of credit improvement on the acquired home loan portfolio.

- Non-Interest Income: Non-interest income increased by $8 million, or 5%, to $158 million in the first quarter of 2015, primarily driven by a lower provision for representation and warranty losses in our home loan portfolio.
- Provision for Credit Losses: The provision for credit losses increased by $66 million, or 47%, to $206 million in the first quarter of 2015, driven by an allowance build and higher net charge-offs due to the growth in our auto loan portfolio, as

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well as the absence of an allowance release in our home loan portfolio that occurred in the first quarter of 2014 due to favorable credit trends.

- Non-Interest Expense: Non-interest expense increased by $40 million, or 4%, to $970 million in the first quarter of 2015, largely due to higher infrastructure spending in our retail banking business and the growth in our auto loan portfolio.
- Loans Held for Investment: Period-end loans held for investment decreased by $60 million, or 0.1%, to $71.4 billion as of March 31, 2015 from December 31, 2014, primarily due to the continued run-off of our acquired home loan portfolio, mostly offset by growth in the auto loan portfolio. Average loans held for investments increased by $778 million, or 1%, to $71.4 billion in the first quarter of 2015 compared to the first quarter of 2014, due to the growth in our auto loan portfolio outpacing the run-off of our acquired home loan portfolio.
- Deposits: Period-end deposits increased by $4.4 billion, or 3%, to $172.5 billion as of March 31, 2015 from December 31, 2014, primarily driven by seasonality of our consumer deposits as well as our continued focus on deepening deposit relationships with existing customers and attract new customers.
- Net Charge-off and Delinquency Statistics: The net charge-off rate increased by 5 basis points to 0.89% in the first quarter of 2015 compared to the first quarter of 2014. The increase in the net charge-off rate reflected the run-off of our acquired home loan portfolio and a greater portion of auto loan portfolio. The 30+ day delinquency rate decreased by 77 basis points to 3.46% as of March 31, 2015 from December 31, 2014 primarily attributable to seasonally lower auto delinquency inventories.

Commercial Banking Business

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

Our Commercial Banking business generated net income from continuing operations of $155 million and $137 million in the first quarters of 2015 and 2014, respectively.

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

Table 9: Commercial Banking Business Results

	Three Months Ended March 31,		
(Dollars in millions)	2015	2014	Change
Selected income statement data:			
Net interest income	$461	$ 421	10%
Non-interest income	114	87	31
Total net revenue[1]	575	508	13
Provision for credit losses	60	40	50
Non-interest expense	272	255	7
Income from continuing operations before income taxes	243	213	14
Income tax provision	88	76	16
Income from continuing operations, net of tax	$155	$ 137	13
Selected performance metrics:			
Average loans held for investment:[2]			
Commercial and multifamily real estate	$23,120	$ 20,962	10
Commercial and industrial	27,190	23,541	16
Total commercial lending	50,310	44,503	13
Small-ticket commercial real estate	760	932	(18)
Total commercial banking	$51,070	$ 45,435	12
Average yield on loans held for investment[1]	3.22 %	3.47 %	(25)bps
Average deposits	$32,845	$ 31,627	4%
Average deposit interest rate	0.24 %	0.25 %	(1)bps
Core deposit intangible amortization	$4	$ 6	(33)%
Net charge-offs	3	4	(25)
Net charge-off rate	0.02 %	0.04 %	(2)bps

(Dollars in millions)	March 31, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment:[2]			
Commercial and multifamily real estate	$22,831	$ 23,137	(1)%
Commercial and industrial	27,172	26,972	1
Total commercial lending	50,003	50,109	—
Small-ticket commercial real estate	738	781	(6)
Total commercial banking	$50,741	$ 50,890	—
Nonperforming loans rate	0.31 %	0.34 %	(3)bps
Nonperforming asset rate[3]	0.31	0.36	(5)
Allowance for loan and lease losses	$444	$ 395	12%
Allowance coverage ratio[4]	0.87 %	0.78 %	9 bps
Deposits	$32,575	$ 31,954	2%
Loans serviced for others[5]	14,804	14,131	5

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[1] The average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Annualized interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment. Some of our tax-related commercial

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

(2) The period-end commercial banking loans held for investments includes Acquired Loans with carrying value of $160 million and $191 million as of March 31, 2015 and December 31, 2014, respectively. The average balance of commercial banking loans held for investment includes Acquired Loans of $171 million and $230 million in the first quarters of 2015 and 2014, respectively.

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

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

(5) Represents our portfolio of loans serviced for third parties related to our multifamily finance business.

Key factors affecting the results of our Commercial Banking business for the first quarter of 2015, compared to the first quarter of 2014, and changes in financial condition and credit performance between March 31, 2015 and December 31, 2014 include the following:

- Net Interest Income: Net interest income increased by $40 million, or 10%, to $461 million in the first quarter of 2015. The increase was driven by growth in commercial and multifamily real estate and commercial and industrial loans, partially offset by lower loan yields driven by market and competitive pressures.
- Non-Interest Income: Non-interest income increased by $27 million, or 31%, to $114 million in the first quarter of 2015, primarily driven by increased revenue from fee-based services and products related to our multifamily finance business.
- Provision for Credit Losses: The provision for credit losses increased by $20 million, or 50% to $60 million in the first quarter of 2015, primarily due to a larger allowance build in the first quarter of 2015 attributable to portfolio specific risks, partially offset by a smaller reserve build for unfunded lending commitments.
- Non-Interest Expense: Non-interest expense increased by $17 million, or 7%, to $272 million in the first quarter of 2015, driven by higher operating expenses associated with continued investments in business growth.
- Loans Held for Investment: Period-end loans held for investment decreased by $149 million, or less than 1%, to $50.7 billion as of March 31, 2015 from December 31, 2014 as paydowns offset originations. Average loans held for investment increased by $5.6 billion, or 12%, to $51.1 billion in the first quarter of 2015 compared to the first quarter of 2014, driven by loan growth in the commercial and industrial and commercial and multifamily real estate businesses.
- Deposits: Period-end deposits increased by $621 million, or 2%, to $32.6 billion as of March 31, 2015 from December 31, 2014, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.
- Net Charge-off and Nonperforming Statistics: The net charge-off rate decreased by 2 basis points to 0.02% in the first quarter of 2015 compared to the first quarter of 2014. The nonperforming loans rate decreased by 3 basis points to 0.31% as of March 31, 2015 from December 31, 2014.

Other Category

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

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

Table 10: Other Category Results

	Three Months Ended March 31,		
(Dollars in millions)	2015	2014	Change
Selected income statement data:			
Net interest income (expense)[1]	$15	$(29)	**
Non-interest income	(17)	(2)	**
Total net loss	(2)	(31)	(94)%
Benefit for credit losses	0	(3)	(100)
Non-interest expense	31	21	48
Loss from continuing operations before income taxes	(33)	(49)	(33)
Income tax benefit	(78)	(38)	105
Income (loss) from continuing operations, net of tax	$45	$(11)	**

** Change is not meaningful.

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

Net income from continuing operations recorded in the Other category was $45 million in the first quarter of 2015, compared to a net loss from continuing operations of $11 million in the first quarter of 2014. The shift to a net profit from a net loss was primarily due to higher income from asset/liability management actions and higher income tax benefit reflecting residual impact of tax allocations, largely driven by a lower effective income tax rate for continuing operations.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets decreased by $1.9 billion to $306.2 billion as of March 31, 2015 from December 31, 2014 primarily attributable to a decrease of $4.3 billion in loans held for investment in our Credit Card business due to seasonality and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business. Total liabilities decreased by $2.6 billion to $260.5 billion as of March 31, 2015, primarily driven by lower liquidity-related short-term funding due to expected seasonality. Stockholders' equity increased by $677 million to $45.7 billion as of March 31, 2015. The increase in stockholders' equity was primarily attributable to our net income of $1.2 billion in the first quarter of 2015, partially offset by share repurchases under our 2014 Stock Repurchase Program and dividend payments.

The following is a discussion of material changes in the major components of our assets and liabilities during the first quarter of 2015. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing our liquidity requirements for the Company and our customers and our market risk exposure in accordance with our risk appetite.

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other investments. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 87% and 86% of our total investment securities portfolio as of March 31, 2015 and December 31, 2014, respectively.

During the first quarter of 2015, the fair value of our investment portfolio increased by $832 million, or 1%, to $64.0 billion as of March 31, 2015 from December 31, 2014. This increase was driven by purchases of securities coupled with lower market interest rates.

We had gross unrealized gains of $968 million and gross unrealized losses of $128 million on available-for sale investment securities as of March 31, 2015, compared to gross unrealized gains of $886 million and gross unrealized losses of $237 million as of

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December 31, 2014. The increase in gross unrealized gains and the decrease in gross unrealized losses in the first quarter of 2015 were primarily driven by lower interest rates. Of the $128 million in gross unrealized losses as of March 31, 2015, $108 million was related to securities that had been in a loss position for more than 12 months. We provide information on other-than-temporary impairment ("OTTI") recognized in earnings on our investment securities above in "Consolidated Results of Operations—Non-Interest Income."
Table 11 presents the amortized cost, carrying value and fair value for the major categories of our portfolio of investment securities as of March 31, 2015 and December 31, 2014.
Table 11: Investment Securities

	March 31, 2015		December 31, 2014	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale				
U.S. Treasury securities	$4,411	$4,440	$4,114	$4,118
Corporate debt securities guaranteed by U.S. government agencies	600	598	819	800
RMBS:				
Agency[(1)]	22,344	22,607	21,804	21,995
Non-agency	2,943	3,441	2,938	3,386
Total RMBS	25,287	26,048	24,742	25,381
CMBS:				
Agency[(1)]	3,672	3,676	3,751	3,723
Non-agency	1,711	1,753	1,780	1,796
Total CMBS	5,383	5,429	5,531	5,519
Other ABS[(2)]	2,025	2,028	2,618	2,662
Other securities[(3)]	775	778	1,035	1,028
Total investment securities available for sale	$38,481	$39,321	$38,859	$39,508
(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity				
U.S. Treasury securities	$198	$199	$0	$0
Agency RMBS	20,484	21,763	20,163	21,210
Agency CMBS	2,559	2,691	2,337	2,424
Total investment securities held to maturity	$23,241	$24,653	$22,500	$23,634

(1) Agency includes Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and Government National Mortgage Association ("Ginnie Mae").

(2) ABS collateralized by credit card loans constituted approximately 59% and 56% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 18% and 16% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively.

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

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. Approximately 93% of our total investment securities portfolio was rated AA+ or its equivalent, or better, as of both March 31, 2015 and December 31, 2014, while approximately 6% was below investment grade as of both March 31, 2015 and December 31, 2014. We categorize the credit ratings of our investment securities based on the lowest credit rating as

issued by the following rating agencies: Standard & Poor’s Ratings Services (“S&P”), Moody’s Investors Service (“Moody’s”) and Fitch Ratings (“Fitch”).

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Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of March 31, 2015 and December 31, 2014.

Table 12: Non-Agency Investment Securities Credit Ratings

	March 31, 2015				December 31, 2014			
(Dollars in millions)	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade[(1)]	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade[(1)]
Non-agency RMBS	$2,943	— %	3 %	97 %	$2,938	— %	3 %	97 %
Non-agency CMBS	1,711	100	—	—	1,780	100	—	—
Other ABS	2,025	98	2	—	2,618	90	5	5
Other securities	775	3	85	12	1,035	2	88	10

(1) Includes a small portion of investment securities that were not rated.

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

Loans Held for Investment

Total loans held for investment ("HFI") consist of unrestricted loans and loans held and restricted in our consolidated securitization trusts. Table 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of March 31, 2015 and December 31, 2014.

Table 13: Loans Held for Investment

	March 31, 2015			December 31, 2014		
(Dollars in millions)	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	$81,754	$ 3,130	$78,624	$85,876	$ 3,204	$82,672
Consumer Banking	71,379	826	70,553	71,439	779	70,660
Commercial Banking	50,741	444	50,297	50,890	395	50,495
Other	104	5	99	111	5	106
Total	$203,978	$ 4,405	$199,573	$208,316	$ 4,383	$203,933

Period-end loans held for investment decreased by $4.3 billion, or 2.1%, to $204.0 billion as of March 31, 2015 from December 31, 2014, driven by seasonal paydowns in our credit card loan portfolio in our Credit Card business and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business.

We provide additional information on the composition of our loan portfolio and credit quality below in "Credit Risk Profile," "MD&A—Consolidated Results of Operations" and "Note 4—Loans."

Loans Held for Sale

Loans held for sale, which are carried at lower of cost or fair value, increased by $705 million, or 113%, to $1.3 billion as of March 31, 2015, from December 31, 2014, primarily driven by higher originations in our multifamily finance business in our Commercial Banking business and timing of sales of these loans.

Deposits

Our deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total deposits increased by $4.9 billion to $210.4 billion as of March 31, 2015 from December 31, 2014. The increase in deposits was primarily driven by seasonality and the growth in our Consumer Banking and Commercial Banking businesses as a result of our continued focus on deepening deposit relationships with existing customers and our continued marketing strategy to attract new business. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in "Liquidity Risk Profile."

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Securitized Debt Obligations

Securitized debt obligations increased by $1.1 billion during the first quarter of 2015, to $12.7 billion as of March 31, 2015 from December 31, 2014 primarily driven by debt issuances of $1.3 billion, offset by debt maturities of $175 million during the first quarter of 2015. We provide additional information on our borrowings below in "Liquidity Risk Profile."

Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and Federal Home Loan Banks ("FHLB") advances, totaled $28.3 billion as of March 31, 2015, of which $6.7 billion represented short-term borrowings and $21.6 billion represented long-term debt. Other debt totaled $36.8 billion as of December 31, 2014, of which $17.1 billion represented short-term borrowings and $19.7 billion represented long-term debt.

The decrease in other debt of $8.5 billion in the first quarter of 2015 was primarily attributable to a net decrease of $10.4 billion in FHLB advances, partially offset by a net increase of $1.9 billion in unsecured senior notes. We provide additional information on our borrowings below in "Liquidity Risk Profile" and in "Note 8—Deposits and Borrowings."

Mortgage Representation and Warranty Reserve

We acquired three subsidiaries that originated residential mortgage loans and sold these loans to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, LLC, which was acquired in February 2005; GreenPoint, which was acquired in December 2006 as part of the North Fork Bancorporation, Inc. ("North Fork") acquisition; and Chevy Chase Bank, F.S.B ("CCB"), which was acquired in February 2009 and subsequently merged into CONA.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities totaled $673 million as of March 31, 2015, compared to $731 million as of December 31, 2014.

The table below summarizes changes in our representation and warranty reserve in the first quarters of 2015 and 2014.

Table 14: Changes in Representation and Warranty Reserve[1]

	Three Months Ended March 31,	
(Dollars in millions)	2015	2014
Representation and warranty reserve, beginning of period	$731	$1,172
Provision (benefit) for mortgage representation and warranty losses:		
Recorded in continuing operations	1	14
Recorded in discontinued operations	(19)	(47)
Total benefit for mortgage representation and warranty losses	(18)	(33)
Net realized losses	(40)	(11)
Representation and warranty reserve, end of period	$673	$1,128

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

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our

reserve as of March 31, 2015, is approximately $2.1 billion, unchanged from our estimate of $2.1 billion as of December 31, 2014.

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

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of arrangements with limited liability companies, partnerships or trusts that often involve special purpose entities and variable interest entities ("VIE"). Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the arrangements, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our home 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. 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 capital are determined by multiple factors, including our consolidated regulatory capital requirements and internal risk-based capital assessments such as internal stress testing and economic capital. The level and composition of our capital may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the 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. National banks, as insured depository institutions, are also subject to Prompt Corrective Action ("PCA") capital regulations, which require the U.S. federal banking agencies to take "prompt corrective action" for banks that do not meet the PCA capital requirements.

In July 2013, the Federal Banking Agencies finalized a new capital rule that implements the Basel III capital accord (the "Final Basel III Capital Rules") developed by the Basel Committee on Banking Supervision ("Basel Committee") and certain Dodd-Frank Act capital provisions and updates the PCA capital requirements. The Final Basel III Capital Rules amended both the Basel I and Basel II Advanced Approaches frameworks, establishing a new common equity Tier 1 capital requirement and setting higher minimum capital ratio requirements. The Company refers to the amended Basel I framework as the "Basel III Standardized Approach," and the amended Advanced Approaches framework as the "Basel III Advanced Approaches."

At the end of 2012, the Company met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, the Company has undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. Certain provisions of the Final Basel III Capital Rules began to take effect on January 1, 2014 for Advanced Approaches banking organizations, including the Company. The Company entered parallel run under Advanced Approaches on January 1, 2015, during which it will calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though it will continue to use the Basel III Standardized Approach for purposes of meeting regulatory capital requirements. By rule, the parallel run must last at least four consecutive quarters. Therefore, the first quarter of 2016 is the earliest possible date on which the Company would use the Basel III Advanced Approaches framework in calculating its regulatory capital and risk-weighted assets for purposes of risk-based capital requirements. Consistent with the experience of other U.S. banks, it is possible that our parallel run will last longer than the four quarter minimum. Under the Dodd-Frank Act and the Final Basel III Capital Rules, organizations subject to Basel III Advanced Approaches may not hold less capital than would be required under the

Basel III Standardized Approach. Therefore,

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even after we exit parallel run, we will continue to calculate regulatory capital and risk-weighted assets under the Basel III Standardized Approach.

As of January 1, 2014, the minimum risk-based and leverage capital requirements for Advanced Approaches banking organizations included a common equity Tier 1 capital ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 5.5%, a total risk-based capital ratio of at least 8.0%, and a Tier 1 leverage capital ratio of at least 4.0%. On January 1, 2015, the minimum risk-based capital ratio requirements increased to 4.5% for the common equity Tier 1 capital ratio and to 6.0% for the Tier 1 risk-based capital ratio. The minimum requirements for the total risk-based capital ratio and the Tier 1 leverage capital ratio did not change from 2014 to 2015.

The Final Basel III Capital Rules also introduced a new supplementary leverage ratio for all Advanced Approaches banking organizations with a minimum requirement of 3.0%. In September 2014 the Federal Banking Agencies issued a final rule that revised the calculation of total leverage exposures and implemented the supplementary leverage ratio. The supplementary leverage ratio compares Tier 1 capital to total leverage exposures, and includes all on-balance sheet assets and many off-balance sheet assets, including derivatives and unused commitments. The new supplementary leverage ratio becomes effective on January 1, 2018. However, as an Advanced Approaches banking organization, we are required to calculate and publicly disclose our supplementary leverage ratio beginning in the first quarter of 2015.

Insured depository institutions are also subject to PCA capital regulations. The Final Basel III Capital Rules increased some of the thresholds for the PCA capital categories and added the new common equity Tier 1 capital ratio to the PCA regulations, effective January 1, 2015. As of January 1, 2014, an insured depository institution was considered to be well-capitalized if it maintains a Tier 1 risk-based capital ratio of at least 6.0%, a total risk-based capital ratio of at least 10.0%, a Tier 1 leverage capital ratio of at least 5.0%, and is not subject to any written agreement, order, capital directive, or PCA directive issued by its regulator. Beginning on January 1, 2015, the well-capitalized level for the Tier 1 risk-based capital ratio increased to 8.0%, and the well-capitalized level for the common equity Tier 1 capital ratio was established at 6.5%. The well-capitalized levels for the total risk-based capital ratio and the Tier 1 leverage capital ratio did not change.

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

Table 15 provides a comparison of our regulatory capital ratios under the Federal Banking Agencies’ capital adequacy standards as of March 31, 2015 and December 31, 2014. Under the Final Basel III Capital Rules, beginning on January 1, 2014, as an Advanced Approaches banking organization we began using the Basel III Standardized Approach for calculating our regulatory capital, subject to applicable transition provisions. Throughout 2014, we continued to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios, as required under the Final Basel III Capital Rules. On January 1, 2015, we began using the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

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Table 15: Capital Ratios[1]

	March 31, 2015			December 31, 2014		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital[2]	12.46 %	4.50 %	N/A	12.46 %	4.00 %	N/A
Tier 1 risk-based capital[3]	13.22	6.00	6.00 %	13.23	5.50	6.00 %
Total risk-based capital[4]	15.07	8.00	10.00	15.14	8.00	10.00
Tier 1 leverage[5]	10.66	4.00	N/A	10.77	4.00	N/A
Supplementary leverage ratio[6]	9.22	N/A	N/A	N/A	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital[2]	12.36 %	4.50 %	6.50 %	11.33 %	4.00 %	N/A
Tier 1 risk-based capital[3]	12.36	6.00	8.00	11.33	5.50	6.00 %
Total risk-based capital[4]	15.66	8.00	10.00	14.57	8.00	10.00
Tier 1 leverage[5]	10.22	4.00	5.00	9.64	4.00	5.00
Supplementary leverage ratio[6]	8.37	N/A	N/A	N/A	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital[2]	12.72 %	4.50 %	6.50 %	12.53 %	4.00 %	N/A
Tier 1 risk-based capital[3]	12.72	6.00	8.00	12.53	5.50	6.00 %
Total risk-based capital[4]	13.78	8.00	10.00	13.57	8.00	10.00
Tier 1 leverage[5]	8.83	4.00	5.00	8.90	4.00	5.00
Supplementary leverage ratio[6]	7.96	N/A	N/A	N/A	N/A	N/A

(1) Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions. As we continue to refine our classification of exposures under the Basel III Standardized Approach framework, risk-weighted asset classifications are subject to change. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information.

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

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

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

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

(6) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital under the Basel III Standardized Approach divided by total leverage exposure.

Capital One Financial Corporation exceeded Federal Banking Agencies’ minimum capital requirements and the Banks exceeded minimum regulatory requirements and were “well-capitalized” under PCA requirements as of both March 31, 2015 and December 31, 2014. Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, subject to transition provisions, was 12.46% as of both March 31, 2015 and December 31, 2014.

The calculation of our Basel III Standardized Approach common equity Tier 1 capital under the Final Basel III Capital Rules includes adjustments and deductions which are subject to transitions provisions, such as the inclusion of the unrealized gains and losses on available for sale investment securities included in accumulated other comprehensive income (“AOCI”) and adjustments related to intangibles other than goodwill. The inclusion of AOCI and the adjustments related to intangibles are phased-in at 20% for 2014, 40% for 2015, 60% for 2016, 80% for 2017 and 100% for 2018.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of March 31, 2015, calculated based on the Final Basel III Capital Rules, subject to applicable transition provisions, to our estimated common equity Tier 1 capital and risk-weighted assets as of March 31, 2015, calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks like us that have not yet exited parallel run. Our estimated common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach is based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and is subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators during our parallel run, we anticipate that there could be further changes to the calculation.

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

(Dollars in millions)	March 31, 2015
Common equity Tier 1 capital under Basel III Standardized	$29,671
Adjustments related to AOCI[2]	(186)
Adjustments related to intangibles[2]	(675)
Other adjustments[2]	—
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized	$28,810
Risk-weighted assets under Basel III Standardized	$238,144
Adjustments for fully phased-in Basel III Standardized[3]	(282)
Estimated risk-weighted assets under fully phased-in Basel III Standardized	$237,862
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized[4]	12.1%

(1) Estimated common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach is a non-GAAP financial measure.

(2) Assumes adjustments are fully phased-in.

(3) Adjustments include higher risk weights for items included in capital based on the threshold deduction approach, such as mortgage servicing assets and deferred tax assets. The adjustments also include removal of risk-weights for items that are deducted from common equity Tier 1 capital.

(4) Calculated by dividing estimated common equity Tier 1 capital by estimated risk-weighted assets, which are both calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks that have not yet exited parallel run. Additional calculation adjustments are likely to apply to the common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach following our exit from Advanced Approaches parallel run.

Under the Final Basel III Capital Rules, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater requirement of the Basel III Standardized Approach and the Basel III Advanced Approaches. See "Part I—Item 1. Business—Supervision and Regulation" in our 2014 Form 10-K for additional information. Based on our business mix, we anticipate that we will need to hold more regulatory capital under the Basel III Advanced Approaches than under the Basel III Standardized Approach to meet our minimum required regulatory capital ratios.

Capital Planning and Regulatory Stress Testing

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us. Under these rules, bank holding companies with consolidated assets of $50 billion or more must submit a capital plan to the Federal Reserve on an annual basis that contains a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the fourth quarter of the calendar year prior to the submission of the capital plan Comprehensive Capital Analysis and Review ("CCAR cycle"). The bank holding company may take the capital actions in its capital plan if the Federal Reserve provides a non-objection to the plan. On October 17, 2014, the Federal Reserve issued a final rule to modify the regulations for capital planning and stress testing. The final rule changes the annual capital plan and stress test cycle start date from October 1 to January 1, effective for the cycle beginning January 1, 2016. To allow for a transition to the change in timing, the Federal Reserve's objection or non-objection applied to the capital actions spanning the five quarters starting with the second quarter of 2015 for the 2015 CCAR cycle. Subsequent submissions each would cover a four-quarter period. For additional information on the Final Rule, see "Part 1—Item 1. Business—Supervision and Regulation" in our 2014 Form 10-K.

After the Federal Reserve's non-objection to our 2014 capital plan, we maintained our quarterly dividend of $0.30 per share for all four quarters in 2014. In addition, our Board of Directors authorized the repurchase of up to $2.5 billion of shares of common stock through the end of the first quarter of 2015. During 2014, we repurchased approximately $2.0 billion of common stock and the remaining amount of the 2014 Stock Repurchase Program was completed during the first quarter of 2015.

On January 5, 2015 we submitted our capital plan to the Board of Directors of the Federal Reserve as part of the 2015 CCAR cycle. On March 11, 2015, the Board of Governors of the Federal Reserve publicly disclosed its non-objection to our proposed capital distribution plans submitted pursuant to CCAR. As a result of this non-objection to our capital plan, the Board of Directors also authorized an increase in the quarterly dividend on our common stock from the current level of $0.30 per share to $0.40 per share. In addition, the company's Board of Directors has authorized the repurchase of up to $3.125 billion of shares of the company's common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016.

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Dividend Policy and Stock Purchases

On April 30, 2015, our Board of Directors approved an increase in our quarterly common stock dividend from $0.30 per share to $0.40 per share, payable on May 21, 2015 to stockholders of record at the close of the business on May 11, 2015. Our Board of Directors also approved quarterly dividends on our Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock payable on June 1, 2015 to stockholders of record at the close of business on May 15, 2015. Based on these declarations, the Company will pay approximately $219 million in common equity dividends and approximately $29 million in total preferred dividends in the second quarter of 2015.

Under the terms of our outstanding preferred stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the preferred stock for the immediately preceding dividend period.

We paid common stock dividends of $0.30 per share in the first quarter of 2015. We paid preferred stock dividends of $15.00 per share on the outstanding shares of our 6.00% fixed-rate non-cumulative perpetual preferred stock, Series B (the “Series B Preferred Stock”); $15.625 per share on the outstanding shares of our 6.25% fixed-rate non-cumulative perpetual preferred stock, Series C (the “Series C Preferred Stock”); and $22.5194 per share on the outstanding shares of our 6.70% fixed-rate non-cumulative perpetual preferred stock, Series D (the “Series D Preferred Stock”) during the first quarter of 2015.

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. Funds available for dividend payments from COBNA was $1.3 billion as of March 31, 2015. There can be no assurance that we will declare and pay any dividends to stockholders.

In addition and consistent with our 2015 capital plan, our Board of Directors has authorized the repurchase of up to $3.125 billion of shares of common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016.

The timing and exact amount of any future common stock repurchases will depend on various factors, including market conditions, opportunities for growth, our capital position and amount of retained earnings. Our stock repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. For additional information on dividends and stock repurchases, see “Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfer of Funds” in our 2014 Form 10-K.

RISK MANAGEMENT

Overview

We use a risk framework to manage risk. We execute against our risk management framework with the “Three Lines of Defense” risk management model to demonstrate and structure the roles, responsibilities and accountabilities in the organization for taking and managing risk.

The “First Line of Defense” is comprised of the business areas that through their day-to-day business activities take risk on our behalf. As the business owner, the first line is responsible for identifying, assessing, managing and controlling that risk, and for mitigating our overall risk exposure. The first line formulates strategy and operates within the risk appetite and framework. The “Second Line of Defense” provides oversight of first line risk taking and management, and is primarily comprised of our Risk Management organization. The second line assists in determining risk capacity, risk appetite, and the strategies, policies and structure for managing risks. The second line owns the risk framework. The second line is both an ‘expert advisor’ to the first line and an ‘effective challenger’ of first line risk activities. The “Third Line of Defense” is comprised of our Internal Audit and Credit Review functions. The third line provides independent and objective assurance to senior management and to the Board of Directors that first and second line risk

management and internal control systems and governance processes are well-designed and working as intended.

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Our risk 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
- Enable with 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 2014 Form 10-K.

CREDIT RISK PROFILE

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

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

Loan Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial lending products. For information on our lending policies and procedures, including our underwriting criteria for our primary loan products, see "MD&A—Credit Risk Profile" in our 2014 Form 10-K.

Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of March 31, 2015 and December 31, 2014. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $1.3 billion and $626 million as of March 31, 2015 and December 31, 2014, respectively.

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Table 17: Loan Portfolio Composition

(Dollars in millions)	March 31, 2015 Loans	% of Total		December 31, 2014 Loans	% of Total	
Credit Card:						
Domestic credit card[1]	$74,131	36.3	%	$77,704	37.3	%
International credit card	7,623	3.7		8,172	3.9	
Total credit card	81,754	40.0		85,876	41.2	
Consumer Banking:						
Auto	38,937	19.1		37,824	18.2	
Home loan	28,905	14.2		30,035	14.4	
Retail banking	3,537	1.7		3,580	1.7	
Total consumer banking	71,379	35.0		71,439	34.3	
Commercial Banking:						
Commercial and multifamily real estate	22,831	11.2		23,137	11.1	
Commercial and industrial	27,172	13.3		26,972	12.9	
Total commercial lending	50,003	24.5		50,109	24.0	
Small-ticket commercial real estate	738	0.4		781	0.4	
Total commercial banking	50,741	24.9		50,890	24.4	
Other:						
Other loans	104	0.1		111	0.1	
Total loans held for investment	$203,978	100.0	%	$208,316	100.0	%

(1) Includes installment loans of $123 million and $144 million as of March 31, 2015 and December 31, 2014, respectively.

Commercial Loans

For purposes of portfolio risk management, we aggregate our commercial loan portfolio according to market segmentation primarily based on standard industry codes. Table 18 summarizes our commercial loan portfolio (excluding loans held for sale) by industry classification as of March 31, 2015 and December 31, 2014.

Table 18: Commercial Loans by Industry[1]

(Percentage of portfolio)	March 31, 2015		December 31, 2014	
Real estate[2]	41	%	41	%
Finance and insurance	11		12	
Oil and gas	7		7	
Health care	5		5	
Business services	5		5	
Public administration	5		5	
Construction and land	5		4	
Educational services	4		4	
Retail trade	4		4	
Transportation	4		4	
Other	9		9	
Total	100	%	100	%

(1) Industry categories are based on our interpretation of the North American Industry Classification System codes as they pertain to each individual loan.

(2) Primarily consists of loans secured by commercial real estate.

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Acquired Loans

Our portfolio of loans held for investment includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. See “MD&A—Glossary and Acronyms” for the definition of ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition. Acquired Loans accounted for based on expected cash flows to be collected were $22.3 billion as of March 31, 2015, compared to $23.5 billion as of December 31, 2014.

The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized in interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. We regularly update our estimate of expected principal and interest to be collected from these loans and evaluate the results for each accounting pool that was established at acquisition based on loans with common risk characteristics. Probable decreases in expected cash flows would trigger the recognition of an allowance for loan and lease losses 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. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for additional information on Acquired Loans.

Home Loans

The substantial majority of our home loan portfolio was acquired in the ING Direct and CCB acquisitions, and they accounted for 99.0% and 98.9% of our total Acquired Loans as of March 31, 2015 and December 31, 2014, respectively. The expected cash flows for our acquired home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield.

Charge-offs on these loans are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, Acquired Loans are not initially classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans.

Table 19 presents the relative size of Acquired Loans in our home loan portfolio, by lien priority.

Table 19: Home Loans - Risk Profile by Lien Priority

	March 31, 2015								
	Loans			Acquired Loans			Total Home Loans		
(Dollars in millions)	Amount	% of Total		Amount	% of Total		Amount	% of Total	
Lien type:									
1st lien	$5,776	20.0	%	$21,766	75.3	%	$27,542	95.3	%
2nd lien	1,015	3.5		348	1.2		1,363	4.7	
Total	$6,791	23.5	%	$22,114	76.5	%	$28,905	100.0	%

	December 31, 2014								
	Loans			Acquired Loans			Total Home Loans		
(Dollars in millions)	Amount	% of Total		Amount	% of Total		Amount	% of Total	
Lien type:									
1st lien	$5,756	19.2	%	$22,883	76.2	%	$28,639	95.4	%
2nd lien	1,038	3.4		358	1.2		1,396	4.6	
Total	$6,794	22.6	%	$23,241	77.4	%	$30,035	100.0	%

See “Note 4—Loans” in this Report for additional credit quality information. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for information on our accounting policies for Acquired Loans, delinquent loans, nonperforming loans, net charge-offs and troubled debt restructurings (“TDRs”) for each of our loan categories.

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Table 20 provides a sensitivity analysis of the Acquired Loans in our home loan portfolio as of March 31, 2015. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact results that are presented below.

Table 20: Sensitivity Analysis - Acquired Loans - Home Loan Portfolio[1]

(Dollars in millions)	March 31, 2015	Estimated Impact
Expected cash flows	$26,552	$(137)
Accretable yield	4,471	2
Allowance for loan and lease losses	33	139

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(1) The estimated impact is the change in the balance as of March 31, 2015 from the hypothetical decline of 10% in the home price index. Changes in the accretable yield would be recognized in interest income in our consolidated statements of income over the life of the loans. Changes in the allowance for loan and lease losses would be recognized immediately in the provision for credit losses in the consolidated statements of income.

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 net charge-off rates and our internal risk ratings of larger balance commercial loans. Trends in delinquency rates are a primary indicator of credit risk within our consumer loan portfolios, as changes in delinquency rates provide an early warning of changes in credit losses. The primary indicator of credit risk in our commercial loan portfolios is our internal 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 underwrite most consumer loans using proprietary models, which are typically based on credit bureau data, including borrower credit scores, along with application information and, where applicable, collateral and deal structure data. We continuously adjust our management of credit lines and collection strategies based on customer behavior and risk profile changes. We use borrower credit scores for subprime classification, for competitive benchmarking and, in some cases, to drive product segmentation decisions.

The following table provides details on the credit scores of our domestic credit card and auto loan portfolios as of March 31, 2015, December 31, 2014, and March 31, 2014.

Table 21: Credit Score Distribution

(Percentage of portfolio)	March 31, 2015	December 31, 2014	March 31, 2014
Domestic credit card - Refreshed FICO scores:[1]			
Greater than 660	66 %	68 %	68 %
660 or below	34	32	32
Total	100 %	100 %	100 %
Auto - At origination FICO scores:[2]			
Greater than 660	48 %	47 %	44 %
621 - 660	17	17	17
620 or below	35	36	39
Total	100 %	100 %	100 %

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(1) Credit scores generally represent FICO scores. These scores are obtained from one of the major credit bureaus at origination and are refreshed monthly thereafter. We approximate non-FICO credit scores to comparable FICO

scores for consistency purposes. Balances for which no credit score is available or the credit score is invalid are included in the 660 or below category.

(2) Credit scores represent FICO scores. These scores are obtained from three credit bureaus at the time of application and are not refreshed thereafter. The FICO score distribution is based on the average scores. Balances for which no credit score is available or the credit score is invalid are included in the 620 or below category.

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We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio.
See "Note 4—Loans" in this Report for additional credit quality information. Also, see "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K for information on our accounting policies for delinquent and nonperforming loans, net charge-offs and TDRs for each of our loan categories.
Delinquency Rates
We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the customer's due date, measured at the reporting date. Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due but currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are generally the same for credit card loans, as we continue to classify the substantial majority of credit card loans as performing until the account is charged-off, typically when the account is 180 days past due. See "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.
Table 22 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of March 31, 2015 and December 31, 2014.
Table 22: 30+ Day Delinquencies

	March 31, 2015				December 31, 2014			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Credit Card:								
Domestic credit card	$2,163	2.92 %	$2,163	2.92 %	$2,538	3.27 %	$2,538	3.27 %
International credit card	214	2.81	262	3.44	240	2.94	294	3.60
Total credit card	2,377	2.91	2,425	2.97	2,778	3.24	2,832	3.30
Consumer Banking:								
Auto	2,029	5.21	2,149	5.52	2,486	6.57	2,682	7.09
Home loan[2]	52	0.18	282	0.97	64	0.21	302	1.01
Retail banking	21	0.60	40	1.12	23	0.64	40	1.11
Total consumer banking[2]	2,102	2.95	2,471	3.46	2,573	3.60	3,024	4.23
Commercial Banking:								
Commercial and multifamily real estate	72	0.31	99	0.43	85	0.37	117	0.51
Commercial and industrial	181	0.67	249	0.92	15	0.05	73	0.27
Total commercial lending	253	0.51	348	0.70	100	0.20	190	0.38
Small-ticket commercial real estate	4	0.49	13	1.82	6	0.72	10	1.28
Total commercial banking	257	0.51	361	0.71	106	0.21	200	0.39
Other:								
Other loans	3	3.37	13	12.58	3	2.84	14	12.23
Total[2]	$4,739	2.32	$5,270	2.58	$5,460	2.62	$6,070	2.91

(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) Excluding the impact of Acquired Loans, the 30+ day performing delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 0.77%, 4.27% and 2.61%, respectively, as of March 31, 2015, and 0.94%, 5.34%, and 2.95%, respectively, as of December 31, 2014. Excluding the impact of Acquired Loans, the 30+ day delinquency rate for our home loan portfolio, total consumer banking and total loans held for

investment was 4.15%, 5.02% and 2.90%, respectively, as of March 31, 2015, and 4.45%, 6.28%, and 3.28%, respectively, as of December 31, 2014.

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Table 23 presents an aging of 30+ day delinquent loans included in the above table.

Table 23: Aging and Geography of 30+ Day Delinquent Loans

(Dollars in millions)	March 31, 2015 Amount	% of Total Loans[1]		December 31, 2014 Amount	% of Total Loans[1]	
Total loan portfolio	$203,978	100.0	%	$208,316	100.00	%
Delinquency status:						
30 – 59 days	$2,384	1.17	%	$2,841	1.36	%
60 – 89 days	1,196	0.58		1,424	0.68	
90 + days	1,690	0.83		1,805	0.87	
Total	$5,270	2.58	%	$6,070	2.91	%
Geographic region:						
Domestic	$5,008	2.46	%	$5,776	2.77	%
International	262	0.13		294	0.14	
Total	$5,270	2.58	%	$6,070	2.91	%

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

Table 24 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of March 31, 2015 and December 31, 2014. 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 24: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	March 31, 2015 Amount	% of Total Loans[1]		December 31, 2014 Amount	% of Total Loans[1]	
Loan category:						
Credit card	$1,134	1.39	%	$1,254	1.46	%
Consumer banking	1	0.00		1	0.00	
Commercial banking	84	0.17		8	0.01	
Total	$1,219	0.60		$1,263	0.61	
Geographic region:						
Domestic	$1,155	0.59	%	$1,190	0.59	%
International	64	0.85		73	0.90	
Total	$1,219	0.60		$1,263	0.61	

(1) Delinquency rates are calculated for each loan category by dividing 90+ day delinquent loans accruing interest by period-end loans held for investment for the specified loan category.

Nonperforming Loans and Nonperforming Assets

Nonperforming assets consist of nonperforming loans, foreclosed property and repossessed assets and the net realizable value of auto loans that have been charged-off as a result of a bankruptcy. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been modified in a manner that grants a concession to a borrower experiencing financial difficulty. See "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

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Table 25 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of March 31, 2015 and December 31, 2014. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value.

Table 25: Nonperforming Loans and Other Nonperforming Assets[1]

	March 31, 2015			December 31, 2014		
(Dollars in millions)	Amount	% of Total Loans HFI		Amount	% of Total Loans HFI	
Nonperforming loans held for investment:						
Credit Card:						
International credit card	$64	0.84	%	$70	0.86	%
Total credit card	64	0.08		70	0.08	
Consumer Banking:						
Auto	120	0.31		197	0.52	
Home loan[2]	336	1.16		330	1.10	
Retail banking	25	0.71		22	0.61	
Total consumer banking[2]	481	0.67		549	0.77	
Commercial Banking:						
Commercial and multifamily real estate	40	0.18		62	0.27	
Commercial and industrial	106	0.39		106	0.39	
Total commercial lending	146	0.29		168	0.33	
Small-ticket commercial real estate	12	1.62		7	0.96	
Total commercial banking	158	0.31		175	0.34	
Other:						
Other loans	14	13.33		15	13.37	
Total nonperforming loans held for investment[2][3]	$717	0.35		$809	0.39	
Other nonperforming assets:[4]						
Foreclosed property[5]	$134	0.07	%	$139	0.06	%
Other assets[6]	173	0.08		183	0.09	
Total other nonperforming assets	307	0.15		322	0.15	
Total nonperforming assets	$1,024	0.50		$1,131	0.54	

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(1) We recognized interest income for loans classified as nonperforming of $3 million in both the first quarters of 2015 and 2014. Interest income forgone related to nonperforming loans was $15 million and $16 million in the first quarters of 2015 and 2014, respectively. Forgone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(2) Excluding the impact of Acquired Loans, the nonperforming loan ratio for our home loan portfolio, total consumer banking and total nonperforming loans held for investment was 4.94%, 0.98% and 0.39%, respectively, as of March 31, 2015, compared to 4.86%, 1.14% and 0.44%, respectively, as of December 31, 2014.

(3) Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.55% and 0.62% as of March 31, 2015 and December 31, 2014, respectively.

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

(5) Includes foreclosed properties related to Acquired Loans of $107 million and $101 million as of March 31, 2015 and December 31, 2014, respectively.

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

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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. Net charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expenses and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off policy for loans varies based on the loan type. See "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K for information on our charge-off policy for each of our loan categories.

Table 26 presents our net charge-off amounts and rates, by portfolio segment, in the first quarters of 2015 and 2014.

Table 26: Net Charge-Offs

	Three Months Ended March 31,			
	2015		2014	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Credit Card:				
Domestic credit card	$664	3.55 %	$700	4.01 %
International credit card	55	2.80	80	4.17
Total credit card	719	3.48	780	4.02
Consumer Banking:				
Auto	148	1.55	134	1.66
Home loan[2]	2	0.03	5	0.06
Retail banking	9	0.96	9	0.95
Total consumer banking[2]	159	0.89	148	0.84
Commercial Banking:				
Commercial and multifamily real estate	(2)	(0.03)	1	0.01
Commercial and industrial	4	0.05	2	0.03
Total commercial lending	2	0.01	3	0.02
Small-ticket commercial real estate	1	0.47	1	0.67
Total commercial banking	3	0.02	4	0.04
Other:			.	
Other loans	0	1.56	(1)	(0.68)
Total net charge-offs[2]	$881	1.72	$931	1.92
Average loans held for investment	$205,194		$193,722	
Average loans held for investment (excluding Acquired Loans)	182,421		165,962	

(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) Excluding the impact of Acquired Loans, the net charge-off rates for our home loan portfolio, total consumer banking and total loans held for investment were 0.11%, 1.30% and 1.93%, respectively, for the three months ended March 31, 2015, compared to 0.29%, 1.37% and 2.24%, respectively, for the three months ended March 31, 2014.

For information regarding management's expectations of net charge-offs, see "MD&A—Business Segment Expectations."

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Loan Modifications and Restructurings

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

Table 27 presents our recorded investment of loans modified in TDRs as of March 31, 2015 and December 31, 2014. It excludes loan modifications that do not meet the definition of a TDR and Acquired Loans accounted for based on expected cash flows, which we track and report separately.

Table 27: Loan Modifications and Restructurings

	March 31, 2015			December 31, 2014		
(Dollars in millions)	Amount	% of Total Modifications		Amount	% of Total Modifications	
Modified and restructured loans:						
Credit card	$673	41.0	%	$692	41.9	%
Consumer banking:						
Auto	453	27.5		435	26.3	
Home loan	219	13.3		218	13.2	
Retail banking	36	2.2		35	2.1	
Total consumer banking	708	43.0		688	41.6	
Commercial banking	263	16.0		272	16.5	
Total	$1,644	100.0	%	$1,652	100.0	%
Status of modified and restructured loans:						
Performing	$1,198	72.9	%	$1,203	72.8	%
Nonperforming	446	27.1		449	27.2	
Total	$1,644	100.0	%	$1,652		