

CAPITAL ONE FINANCIAL CORP  
Form 10-Q  
May 09, 2013  
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**UNITED STATES**  
**SECURITIES AND EXCHANGE COMMISSION**

Washington, D.C. 20549

**FORM 10-Q**

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

For the quarterly period ended March 31, 2013

OR

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

For the transition period from \_\_\_\_\_ to \_\_\_\_\_

Commission File No. 1-13300

**CAPITAL ONE FINANCIAL CORPORATION**

(Exact name of registrant as specified in its charter)

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**Delaware**  
(State or Other Jurisdiction of

**54-1719854**  
(I.R.S. Employer

Incorporation or Organization)

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  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  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  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

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

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**PART I FINANCIAL INFORMATION**

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

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

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

|   |                        |
|---|------------------------|
| Summary of Selected Financial Data                            | Capital Management     |
| Executive Summary and Business Outlook                        | Risk Management        |
| Critical Accounting Policies and Estimates                    | Credit Risk Profile    |
| Accounting Changes and Developments                           | Liquidity Risk Profile |
| Consolidated Results of Operations                            | Market Risk Profile    |
| Business Segment Financial Performance                        | Supplemental Tables    |
| Consolidated Balance Sheet Analysis                           | Capital Management     |
| Off-Balance Sheet Arrangements and Variable Interest Entities |                        |

**SUMMARY OF SELECTED FINANCIAL DATA**

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

On February 17, 2012, we completed the acquisition (the ING Direct acquisition ) of substantially all of the ING Direct business in the United States ( ING Direct ) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (collectively the ING Direct

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Sellers ). The ING Direct acquisition resulted in the addition of loans of \$40.4 billion, other assets of \$53.9 billion and deposits of \$84.4 billion as of the acquisition date.

On May 1, 2012, pursuant to the agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, HSBC ), we closed the acquisition of substantially all of the assets and assumed liabilities of HSBC s credit card and private-label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) (the 2012 U.S. card acquisition ). The 2012 U.S. card

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

We use the term "acquired loans" to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank ( "CCB" ) acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as "Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*", commonly referred to as "SOP 03-3" ). The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$34.9 billion and \$37.1 billion as of March 31, 2013 and December 31, 2012, respectively. The difference between the fair value at acquisition and initial expected cash flows represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between the contractual payments on the loans and the expected cash flows represents the nonaccretable difference or the amount not considered collectible, which approximates what we refer to as the "credit mark." The credit mark established under the accounting for these loans takes into consideration future expected credit losses over the life of the loans. Accordingly, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition. In addition, these loans are not classified as delinquent or nonperforming even though the customer may be contractually past due because we expect that we will fully collect the carrying value of these loans. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these acquired loans. For additional information, see "Credit Risk Profile" and "Note 4 Loans Acquired Loans."



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

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



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

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

- (1) Premium amortization related to the ING Direct and 2012 U.S. card acquisitions reduced net interest income by \$111 million and \$30 million in the first quarter of 2013 and 2012, respectively.
- (2) Includes a bargain purchase gain of \$594 million attributable to the ING Direct acquisition recognized in non-interest income in the first quarter of 2012. The bargain purchase gain represents the excess of the fair value of the net assets acquired from ING Direct as of the acquisition date over the consideration transferred.
- (3) Total net revenue was reduced by \$265 million and \$123 million in the first quarter of 2013 and 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees.
- (4) Includes purchased credit card relationship ( PCCR ) intangible amortization of \$116 million and \$4 million in the first quarter of 2013 and 2012, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of \$44 million and \$46 million in the first quarter of 2013 and 2012, respectively.
- (5) Discontinued operations reflect ongoing costs related to the mortgage origination operations of GreenPoint's wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ( Greenpoint ), which we closed in 2007.
- (6) Loans held for investment includes loans acquired in the CCB, ING Direct and 2012 U.S. card acquisitions. The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$34.9 billion and \$37.1 billion as of March 31, 2013 and December 31, 2012, respectively. The average carrying value of acquired loans was \$35.7 billion and \$23.1 billion in the first quarter of 2013 and 2012, respectively. The average balance of loans held for investment, excluding the carrying value of acquired loans, was \$160.3 billion and \$129.8 billion in the first quarter of 2013 and 2012, respectively. See Note 4 Loans for additional information.
- (7) Consists of credit card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance transactions.
- (8) Calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.

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- (9) Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
- (10) Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.
- (11) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Business Segment Financial Performance, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.
- (12) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.
- (13) Calculated based on annualized income from continuing operations, net of tax, for the period divided by average stockholders' equity for the period.
- (14) Calculated based on average stockholders' equity for the period divided by average total assets for the period.
- (15) Calculated based on annualized non-interest expense, excluding goodwill impairment charges, for the period divided by average loans held for investment for the period.
- (16) Calculated based on non-interest expense, excluding goodwill impairment charges, for the period divided by total net revenue for the period.
- (17) Tier 1 common ratio is a regulatory capital measure calculated based on Tier 1 common equity divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.
- (18) Tier 1 risk-based capital ratio is a regulatory measure calculated based on Tier 1 capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.
- (19) Total risk-based capital ratio is a regulatory measure calculated based on total risk-based capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for additional information, including the calculation of this ratio.
- (20) TCE ratio is a non-GAAP measure calculated based on tangible common equity divided by tangible assets. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures Under Basel I for the calculation of this measure and reconciliation to the comparative GAAP measure.

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**INTRODUCTION**

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

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

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

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

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

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

Our principal operations are currently organized for management reporting purposes into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. The acquired ING Direct business is primarily reflected in our Consumer Banking business, while the business acquired in the 2012 U.S. card acquisition is reflected in our Credit Card business. Certain activities that are not part of a segment are included in our Other category.

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

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

*Commercial Banking:* Consists of our lending, deposit gathering and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between \$10 million to \$1.0 billion.

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

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business segment results and a reconciliation of our total business segment results to our consolidated U.S. GAAP results in Note 13 Business Segments of this Report.

**Table of Contents****Table 2: Business Segment Results**

| (Dollars in millions)                   | Three Months Ended March 31,     |             |                                  |             |                                  |             |                                  |             |
|---|----------------------------------|-------------|----------------------------------|-------------|----------------------------------|-------------|----------------------------------|-------------|
|   | 2013                             |             |                                  |             | 2012                             |             |                                  |             |
|   | Total Net Revenue <sup>(1)</sup> |             | Net Income (Loss) <sup>(2)</sup> |             | Total Net Revenue <sup>(1)</sup> |             | Net Income (Loss) <sup>(2)</sup> |             |
| Amount                                  | % of Total                       | Amount      | % of Total                       | Amount      | % of Total                       | Amount      | % of Total                       |             |
| Credit Card                             | \$ 3,651                         | 66%         | \$ 686                           | 60%         | \$ 2,590                         | 53%         | \$ 566                           | 38%         |
| Consumer Banking                        | 1,659                            | 30          | 383                              | 33          | 1,464                            | 30          | 224                              | 15          |
| Commercial Banking                      | 538                              | 9           | 203                              | 18          | 516                              | 10          | 210                              | 14          |
| Other <sup>(3)</sup>                    | (297)                            | (5)         | (128)                            | (11)        | 365                              | 7           | 505                              | 33          |
| <b>Total from continuing operations</b> | <b>\$ 5,551</b>                  | <b>100%</b> | <b>\$ 1,144</b>                  | <b>100%</b> | <b>\$ 4,935</b>                  | <b>100%</b> | <b>\$ 1,505</b>                  | <b>100%</b> |

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

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

(3) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments as well as other items as described in Note 20 Business Segments in our 2012 Form 10-K.

**EXECUTIVE SUMMARY AND BUSINESS OUTLOOK**

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

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

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

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

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an increase in our quarterly common stock dividend per share from \$0.05 per share to \$0.30 per share, payable May 23, 2013 to stockholders of record as of May 13, 2013.

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



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**Table of Contents****Financial Highlights**

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

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

Below are additional highlights of our performance in the first quarter of 2013. These highlights generally are based on a comparison between our first quarter 2013 and 2012 results, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of March 31, 2013, compared with our financial condition and credit performance as of December 31, 2012. We provide a more detailed discussion of our financial performance in the sections following this [Executive Summary](#) and [Business Outlook](#).

***Total Company***

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

*Loans Held for Investment:* Period-end loans held for investment decreased by \$14.6 billion, or 7%, in the first quarter of 2013, to \$191.3 billion as of March 31, 2013, from \$205.9 billion as of December 31, 2012. The decrease was due in part to the transfer of the Best Buy loan portfolio to the held for sale category. Excluding the transfer of the Best Buy portfolio of approximately \$7 billion to held for sale, period-end loans held for investment decreased by approximately \$7.6 billion, or 4%, due to typical seasonally lower credit card purchase volumes and higher pay downs in the first quarter of the year, the continued expected run-off of installment loans in our Credit Card business and home loans in our Consumer Banking business, as well as the expected run-off of certain other credit card loans acquired in the 2012 U.S. card acquisition. The pay downs and run-off of card balances were partially offset by higher period-end auto balances due to the continued high volume of auto loan originations and strong loan originations in our commercial and industrial and commercial real estate loan portfolios.

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

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seasonal patterns, with delinquency rates generally tending to decrease in the first two quarters of the year as customers use income tax refunds to pay down outstanding loan balances. We provide information on our credit quality metrics, excluding the impact of acquired loans accounted for based on estimated cash flows expected to be collected, below under **Business Segments** and **Credit Risk Profile**.

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

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

***Business Segments***

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

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

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

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\$35 million recorded in the first quarter of 2013, compared with a negative provision of \$69 million recorded in the first quarter of 2012. Period-end loans held for investment in our Commercial Banking business increased by \$330 million, or 1%, in the first quarter of 2013 to \$39.2 billion as of March 31, 2013, from \$38.8 billion as of December 31, 2012. The increase was driven by stronger loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

### **Business Outlook**

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Quarterly Report on Form 10-Q. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in Part I Item 1. Business and Part I Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations in our 2012 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Forward-looking statements do not reflect: (i) any change in current dividend or repurchase strategies, (ii) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed, or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See Forward-Looking Statements in this Quarterly Report on Form 10-Q for more information on the forward-looking statements in this report and Item 1A. Risk Factors in our 2012 Form 10-K for factors that could materially influence our results.

### ***Total Company Expectations***

Our strategies and actions are designed to deliver and sustain strong returns and capital generation through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe that franchise-enhancing customer relationships create and sustain significant long-term value through low credit costs, long and loyal customer relationships and a gradual build in loan balances and revenues over time. Examples of franchise-enhancing customer relationships include rewards customers and new partnerships in our Credit Card business, retail deposit customers in our Consumer Banking business and primary banking relationships with commercial customers in our Commercial Banking business. We intend to grow these customer relationships by continuing to invest in scalable infrastructure and operating platforms that are appropriate for a bank of our size and business mix so that we can meet the rising regulatory and compliance expectations facing all banks and deliver a brand-defining customer experience that builds and sustains a valuable, long-term customer franchise. The ING Direct and 2012 U.S. card acquisitions strengthened and expanded our customer base and over time, we expect these acquisitions to expand and deepen our customer relationships with new products and services.

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

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

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

### ***Business Segment Expectations***

#### ***Credit Card Business***

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

#### ***Consumer Banking Business***

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

#### ***Commercial Banking Business***

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

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

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

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

- Loan loss reserves
- Asset impairment
- Fair value
- Representation and warranty reserve
- Customer rewards reserve
- Income taxes

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

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

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

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

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

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**ACCOUNTING CHANGES AND DEVELOPMENTS**

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

**CONSOLIDATED RESULTS OF OPERATIONS**

The section below provides a comparative discussion of our consolidated financial performance for the three months ended March 31, 2013 and 2012. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary and Business Outlook, where we discuss trends and other factors that we expect will affect our future results of operations.

**Net Interest Income**

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which primarily include loans held for investment and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt and other borrowings. We include in interest income any past due fees on loans that we deem are collectible. Our net interest margin based on our consolidated results represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned or interest expense incurred, and average yield or cost for the three months ended March 31, 2013 and 2012.

**Table of Contents****Table 3: Average Balances, Net Interest Income and Net Interest Yield<sup>(1)</sup>**

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

- (1) Certain prior period amounts have been reclassified to conform to the current period presentation.
- (2) Past due fees included in interest income totaled approximately \$480 million and \$283 million in the first quarter of 2013 and 2012, respectively. Premium amortization related to the ING Direct and 2012 U.S. card acquisitions reduced net interest income by \$111 million and \$30 million in the first quarter of 2013 and 2012, respectively.
- (3) Credit card loans consist of domestic and international credit card loans and installment loans.
- (4) Consumer banking loans consist of auto, home and retail banking loans.



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

**Table 4: Rate/Volume Analysis of Net Interest Income<sup>(1)</sup>**

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

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

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

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

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*Net Interest Margin:* The 51 basis point improvement in our net interest margin was primarily attributable to a reduction in our cost of funds of 37 basis points to 0.83% for the first quarter of 2013. The redemption on January 2, 2013 of \$3.65 billion of our trust preferred securities, which generally carried a higher coupon than other funding sources available to us, accounted for approximately 11 basis points of the reduction in our funding costs. The remaining reduction reflects the continued benefit from the shift in the mix of our funding to lower cost consumer and commercial banking deposits from higher cost wholesale sources and a decline in deposit interest rates as a result of the continued overall low interest rate environment.

**Non-Interest Income**

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

Table 5 displays the components of non-interest income for the first quarter of 2013 and 2012.

**Table 5: Non-Interest Income**

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

- (1) Represents the amount by which the fair value of the net assets acquired in the ING Direct acquisition, as of the acquisition date of February 17, 2012, exceeded the consideration transferred.
- (2) We recorded a total provision for mortgage representation and warranty losses of \$97 million and \$169 million in the first quarter of 2013 and 2012, respectively. The remaining portion of the provision for mortgage representation and warranty losses is included, net of tax, in discontinued operations.
- (3) Excludes changes in cumulative credit risk valuation adjustments related to derivatives in a gain position. Credit risk valuation adjustments for derivative assets totaled \$8 million and \$9 million as of March 31, 2013 and December 31, 2012, respectively. See Note 9 Derivative Instruments and Hedging Activities for additional information.

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

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

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The unfavorable impact of these items was partially offset by the favorable impact of (i) increased net interchange and other fees resulting from continued growth and market share from new account originations, due in part to the ING Direct and the 2012 U.S. card acquisitions; (ii) the absence of expense of \$75 million for expected customer refunds attributable to credit card cross-selling issues and (iii) the absence of a mark-to-market derivative loss of \$78 million recognized in the first quarter of 2012 related to the settlement of interest-rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the ING Direct acquisition.

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

### **Provision for Credit Losses**

We build our allowance for loan and lease losses and unfunded lending commitment reserves through the provision for credit losses. Our provision for credit losses in each period is driven by charge-offs and the level of allowance for loan and lease losses that we determine is necessary to provide for probable loan and lease losses incurred that are inherent in our loan portfolio as of each balance sheet date.

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

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses under the Credit Risk Profile Summary of Allowance for Loan and Lease Losses and Note 5 Allowance for Loan and Lease Losses. For information on the allowance methodology for each of our loan categories, see Note 1 Summary of Significant Accounting Policies in our 2012 Form 10-K.

### **Non-Interest Expense**

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

**Table of Contents****Table 6: Non-Interest Expense**

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

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

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

**Income Taxes**

We recorded an income tax provision on income from continuing operations of \$494 million (30.2% effective income tax rate) in the first quarter of 2013, compared with an income tax provision of \$353 million (19.0% effective income tax rate) in the first quarter of 2012. Our effective tax rate varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The increase in our effective tax rate in the first quarter of 2013 from the first quarter of 2012 was primarily attributable to the absence of the non-taxable bargain purchase gain of \$594 million recorded in the first quarter of 2012 related to the ING Direct acquisition, which substantially reduced our effective tax rate in first quarter of 2012.

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

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

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

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

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

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

**BUSINESS SEGMENT FINANCIAL PERFORMANCE**

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management accounting and reporting process to derive our business segment results. Our internal management accounting and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses. We provide additional information on the allocation methodologies used to derive our business segment results in Note 20 Business Segments in our 2012 Form 10-K.

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

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

**Table of Contents****Credit Card Business**

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

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

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

**Table 7: Credit Card Business Results**

| (Dollars in millions)  | Three Months Ended March 31, |              |         |
|--|------------------------------|--------------|---------|
|  | 2013                         | 2012         | Change  |
| <b>Selected income statement data:</b>                               |                              |              |         |
| Net interest income <sup>(1)</sup>                                   | \$ 2,830                     | \$ 1,992     | 42%     |
| Non-interest income  | 821                          | 598          | 37      |
| Total net revenue <sup>(2)</sup>                                     | 3,651                        | 2,590        | 41      |
| Provision for credit losses  | 743                          | 458          | 62      |
| Non-interest expense <sup>(3)</sup>                                  | 1,848                        | 1,268        | 46      |
| Income from continuing operations before income taxes                | 1,060                        | 864          | 23      |
| Income tax provision   | 374                          | 298          | 26      |
| Income from continuing operations, net of tax                        | \$ 686                       | \$ 566       | 21%     |
| <b>Selected performance metrics:</b>                                 |                              |              |         |
| Average loans held for investment <sup>(4)</sup>                     | \$ 82,952                    | \$ 62,432    | 33%     |
| Average yield on loans held for investment <sup>(5)</sup>            | 15.16%                       | 14.41%       | 75bps   |
| Total net revenue margin <sup>(6)</sup>                              | 17.61                        | 16.59        | 102     |
| Net charge-offs  | \$ 922                       | \$ 645       | 43%     |
| Net charge-off rate <sup>(7)</sup>                                   | 4.45%                        | 4.14%        | 31bps   |
| PCCR intangible amortization <sup>(3)</sup>                          | \$ 116                       | \$ 4         | **%     |
| Purchase volume <sup>(8)</sup>                                       | 45,098                       | 34,498       | 31      |
| (Dollars in millions)  | March 31,                    | December 31, | Change  |
|  | 2013                         | 2012         |         |
| <b>Selected period-end data:</b>                                     |                              |              |         |
| Loans held for investment <sup>(4)</sup>                             | \$ 78,397                    | \$ 91,755    | (15)%   |
| 30+ days performing delinquency rate <sup>(9)</sup>                  | 3.44%                        | 3.61%        | (17)bps |
| 30+ days delinquency rate <sup>(10)</sup>                            | 3.53                         | 3.69         | (16)    |
| 30+ days delinquency rate (excluding acquired loans) <sup>(11)</sup> | 3.54                         | 3.70         | (16)    |
| Nonperforming loan rate <sup>(12)</sup>                              | 0.12                         | 0.11         | 1       |
| Allowance for loan and lease losses                                  | \$ 3,494                     | \$ 3,979     | (12)%   |
| Allowance coverage ratio <sup>(13)</sup>                             | 4.46%                        | 4.34%        | 12bps   |



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- \*\* Change is less than one percent or not meaningful.
- (1) Includes premium amortization related to the 2012 U.S. card acquisition of \$43 million in the first quarter of 2013.
  - (2) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by \$265 million and \$123 million in the first quarter of 2013 and 2012, respectively, for the estimated uncollectible amount of billed finance charges and fees.
  - (3) Includes PCCR intangible amortization expense of \$116 million and \$4 million in the first quarter of 2013 and 2012, respectively, of which \$113 million in the first quarter of 2013 is attributable to the PCCR intangible asset of \$2.2 billion recorded in connection with the closing on May 1, 2012 of the 2012 U.S. card acquisition.
  - (4) Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the estimated uncollectible amount.
  - (5) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. The transfer of the Best Buy loan portfolio to held for sale resulted in an increase in the average yield for Total Credit Card of 97 basis points in the first quarter of 2013.
  - (6) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. The transfer of the Best Buy portfolio to held for sale resulted in an increase in the net revenue margin for Total Card of 112 basis points in the first quarter of 2013.
  - (7) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
  - (8) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
  - (9) Calculated by loan category by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
  - (10) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
  - (11) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Summary of Selected Financial Data, Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.
  - (12) Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. Nonperforming credit card loans generally include international card loans that are 90 or 120 days delinquent.
  - (13) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.
- Key factors affecting the results of our Credit Card business for the first quarter of 2013, compared with the first quarter of 2012, and changes in financial condition and credit performance between March 31, 2013 and December 31, 2012 include the following:

*Net Interest Income:* Net interest income increased by \$838 million, or 42%, in the first quarter of 2013 to \$2.8 billion, attributable to the substantial increase in average loans held for investment resulting from the 2012 U.S. card acquisition in the second quarter of 2012 and higher average yields on loans held for investment. The increase in average loan yields was largely due to the transfer of the Best Buy loan portfolio, which generally had lower yields relative to our overall loan portfolio, to the held for sale category in the first quarter of 2013.

*Non-Interest Income:* Non-interest income increased by \$223 million, or 37%, in the first quarter of 2013 to \$821 million. The increase was primarily driven by higher net interchange fees generated from purchase volume growth and customer-related fees resulting from the addition of customer accounts associated with the 2012 U.S. card acquisition. Purchase volume increased by \$10.6 billion, or 31%, in the first quarter of 2013. Excluding purchase volume attributable to loans from the 2012 U.S. card acquisition, purchase volume increased by approximately 5% in the first quarter of 2013.

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





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

*Non-Interest Expense:* Non-interest expense increased by \$580 million, or 46%, in the first quarter of 2013 to \$1.8 billion. The increase was largely due to higher operating expenses resulting from the 2012 U.S. card acquisition and the amortization of intangibles and other assets associated with the 2012 U.S. card acquisition, including PCCR intangible amortization expense of \$113 million in the first quarter of 2013.

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

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

***Domestic Card Business***

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

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

**Table 7.1: Domestic Card Business Results**

| (Dollars in millions)   | 2013              | Three Months Ended March 31,<br>2012 | Change  |
|---|-------------------|--------------------------------------|---------|
| <b>Selected income statement data:</b>                              |                   |                                      |         |
| Net interest income <sup>(1)</sup>                                  | \$ 2,556          | \$ 1,713                             | 49%     |
| Non-interest income   | 724               | 497                                  | 46      |
| Total net revenue   | 3,280             | 2,210                                | 48      |
| Provision for credit losses   | 647               | 361                                  | 79      |
| Non-interest expense <sup>(2)</sup>                                 | 1,633             | 1,052                                | 55      |
| Income from continuing operations before income taxes               | 1,000             | 797                                  | 25      |
| Income tax provision  | 356               | 282                                  | 26      |
| Income from continuing operations, net of tax                       | \$ 644            | \$ 515                               | 25%     |
| <b>Selected performance metrics:</b>                                |                   |                                      |         |
| Average loans held for investment <sup>(3)</sup>                    | \$ 74,714         | \$ 54,131                            | 38%     |
| Average yield on loans held for investment <sup>(4)</sup>           | 15.07%            | 14.11%                               | 96bps   |
| Total net revenue margin <sup>(5)</sup>                             | 17.56             | 16.33                                | 123     |
| Net charge-offs   | \$ 827            | \$ 531                               | 56%     |
| Net charge-off rate <sup>(6)</sup>                                  | 4.43%             | 3.92%                                | 51bps   |
| PCCR intangible amortization <sup>(2)</sup>                         | \$ 116            | \$ 4                                 | **%     |
| Purchase volume <sup>(7)</sup>                                      | 41,831            | 31,417                               | 33      |
| (Dollars in millions)   | March 31,<br>2013 | December 31,<br>2012                 | Change  |
| <b>Selected period-end data:</b>                                    |                   |                                      |         |
| Loans held for investment <sup>(3)</sup>                            | \$ 70,361         | \$ 83,141                            | (15)%   |
| 30+ days delinquency rate <sup>(8)</sup>                            | 3.37%             | 3.61%                                | (24)bps |
| 30+ days delinquency rate (excluding acquired loans) <sup>(9)</sup> | 3.38              | 3.62                                 | (24)    |
| Allowance for loan and lease losses                                 | \$ 3,057          | \$ 3,526                             | (13)%   |

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

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

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

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

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

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

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

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

(8)

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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.

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

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

**International Card Business**

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

**Table 7.2: International Card Business Results**

| (Dollars in millions)                                     | 2013              | Three Months Ended March 31,<br>2012 | Change  |
|---|-------------------|--------------------------------------|---------|
| <b>Selected income statement data:</b>                    |                   |                                      |         |
| Net interest income                                       | \$ 274            | \$ 279                               | (2)%    |
| Non-interest income                                       | 97                | 101                                  | (4)     |
| Total net revenue   | 371               | 380                                  | (2)     |
| Provision for credit losses                               | 96                | 97                                   | (1)     |
| Non-interest expense                                      | 215               | 216                                  | **      |
| Income from continuing operations before income taxes     | 60                | 67                                   | (10)    |
| Income tax provision                                      | 18                | 16                                   | 13      |
| Income from continuing operations, net of tax             | \$ 42             | \$ 51                                | (18)%   |
| <b>Selected performance metrics:</b>                      |                   |                                      |         |
| Average loans held for investment <sup>(1)</sup>          | \$ 8,238          | \$ 8,301                             | (1)%    |
| Average yield on loans held for investment <sup>(2)</sup> | 15.97%            | 16.38%                               | (41)bps |
| Total net revenue margin <sup>(3)</sup>                   | 18.01             | 18.31                                | (30)    |
| Net charge-offs   | \$ 95             | \$ 114                               | (17)%   |
| Net charge-off rate <sup>(4)</sup>                        | 4.59%             | 5.52%                                | (93)bps |
| Purchase volume <sup>(5)</sup>                            | \$ 3,267          | \$ 3,081                             | 6%      |
| (Dollars in millions)                                     | March 31,<br>2013 | December 31,<br>2012                 | Change  |
| <b>Selected period-end data:</b>                          |                   |                                      |         |
| Loans held for investment <sup>(1)</sup>                  | \$ 8,036          | \$ 8,614                             | (7)%    |
| 30+ days performing delinquency rate <sup>(6)</sup>       | 4.04%             | 3.58%                                | 46bps   |
| 30+ days delinquency rate <sup>(7)</sup>                  | 4.93              | 4.49                                 | 44      |
| Nonperforming loan rate <sup>(8)</sup>                    | 1.13              | 1.16                                 | (3)     |
| Allowance for loan and lease losses                       | \$ 437            | \$ 453                               | (4)%    |

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



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- (1) Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the estimated uncollectible amount.
- (2) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category.
- (3) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category.
- (4) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
- (5) Consists of purchase transactions for the period, net of returns. Excludes cash advance transactions.
- (6) Calculated by loan category by dividing 30+ day performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
- (7) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
- (8) Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment for the specified loan category. Nonperforming credit card loans generally include international card loans that are 90 or 120 days delinquent. The results for International Card in the first quarter of 2013 were comparable to the first quarter of 2012, as average loan balances, yields and expenses remained relatively stable.

## **Consumer Banking Business**

Our Consumer Banking business generated net income from continuing operations of \$383 million in the first quarter of 2013, an increase of \$159 million, or 71%, from net income from continuing operations of \$224 million in the first quarter of 2012. The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from customer fees. Expenses primarily consist of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services and communications and data processing technology expenses, as well as marketing expenditures.

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

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

**Table 8: Consumer Banking Business Results**

| (Dollars in millions)  | 2013              | Three Months Ended March 31,<br>2012 | Change   |
|--|-------------------|--------------------------------------|----------|
| <b>Selected income statement data:</b>   |                   |                                      |          |
| Net interest income  | \$ 1,478          | \$ 1,288                             | 15%      |
| Non-interest income  | 181               | 176                                  | 3        |
| Total net revenue  | 1,659             | 1,464                                | 13       |
| Provision for credit losses  | 175               | 174                                  | 1        |
| Non-interest expense   | 890               | 943                                  | (6)      |
| Income from continuing operations before income taxes                          | 594               | 347                                  | 71       |
| Income tax provision   | 211               | 123                                  | 72       |
| Income from continuing operations, net of tax                                  | \$ 383            | \$ 224                               | 71%      |
| <b>Selected performance metrics:</b>   |                   |                                      |          |
| Average loans held for investment: <sup>(1)</sup>                              |                   |                                      |          |
| Auto   | \$ 27,477         | \$ 22,582                            | 22%      |
| Home loan  | 43,023            | 29,502                               | 46       |
| Retail banking   | 3,786             | 4,179                                | (9)      |
| Total consumer banking   | \$ 74,286         | \$ 56,263                            | 32%      |
| Average yield on loans held for investment <sup>(2)</sup>                      | 5.93%             | 7.20%                                | (127)bps |
| Average deposits   | \$ 171,089        | \$ 129,915                           | 32%      |
| Average deposit interest rate  | 0.64%             | 0.73%                                | (9)bps   |
| Core deposit intangible amortization   | \$ 37             | \$ 37                                | **%      |
| Net charge-offs  | 143               | 109                                  | (31)     |
| Net charge-off rate <sup>(3)</sup>   | 0.78%             | 0.77%                                | 1bps     |
| Net charge-off rate (excluding acquired loans) <sup>(4)</sup>                  | 1.47              | 1.29                                 | 18       |
| Automobile loan originations   | \$ 3,789          | \$ 4,270                             | (11)%    |
|  | March 31,<br>2013 | December 31,<br>2012                 | Change   |
| <b>Selected period-end data:</b>   |                   |                                      |          |
| Loans held for investment: <sup>(1)</sup>                                      |                   |                                      |          |
| Auto   | \$ 27,940         | \$ 27,123                            | 3%       |
| Home loan  | 41,931            | 44,100                               | (5)      |
| Retail banking   | 3,742             | 3,904                                | (4)      |
| Total consumer banking   | \$ 73,613         | \$ 75,127                            | (2)%     |
| 30+ days performing delinquency rate <sup>(5)</sup>                            | 2.24%             | 2.65%                                | (41)bps  |
| 30+ days performing delinquency rate (excluding acquired loans) <sup>(4)</sup> | 4.20              | 5.14                                 | (94)     |
| 30+ days delinquency rate <sup>(6)</sup>                                       | 2.81              | 3.34                                 | (53)     |
| 30+ days delinquency rate (excluding acquired loans) <sup>(4)</sup>            | 5.27              | 6.49                                 | (122)    |
| Nonperforming loans rate <sup>(7)</sup>  | 0.74              | 0.85                                 | (11)     |
| Nonperforming loans rate (excluding acquired loans) <sup>(4)</sup>             | 1.39              | 1.66                                 | (27)     |
| Nonperforming asset rate <sup>(8)</sup>  | 0.80              | 0.91                                 | (11)     |
| Nonperforming asset rate (excluding acquired loans) <sup>(4)</sup>             | 1.49              | 1.76                                 | (27)     |



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

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

- (1) Loans held for investment includes loans acquired in the ING Direct and Chevy Chase Bank acquisitions. The carrying value of consumer banking acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was \$34.4 billion and \$36.5 billion as of March 31, 2013 and December 31, 2012, respectively. The average balance of consumer banking loans held for investment, excluding the carrying value of acquired loans, was \$39.2 billion and \$33.7 billion in the first quarter of 2013 and 2012, respectively.
- (2) Calculated by dividing interest income for the period by average loans held for investment during the period for the specified loan category.
- (3) Calculated by dividing annualized net charge-offs for the period by average loans held for investment during the period for the specified loan category.
- (4) Calculation of ratio adjusted to exclude from the denominator acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected. See Credit Risk Profile and Note 4 Loans Credit Quality for additional information on the impact of acquired loans on our credit quality metrics.
- (5) Calculated by loan category by dividing 30+ days performing delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
- (6) Calculated by loan category by dividing 30+ days delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category.
- (7) Calculated by loan category by dividing nonperforming loans as of the end of the period by period-end loans held for investment.
- (8) Calculated by loan category by dividing nonperforming assets as of the end of the period by period-end loans held for investment, REO, and other foreclosed assets for the specified loan category.
- (9) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

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

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

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

*Provision for Credit Losses:* The provision for credit losses related to our Consumer Banking business of \$175 million in the first quarter of 2013, was comparable to the provision of \$174 million in the first quarter of 2012, reflecting modestly higher auto loan charge-offs attributable to the continued high volume of auto loan originations, which was offset by an allowance release for our home loan portfolio. As discussed above under Summary of Selected Financial Data, the substantial majority of the ING Direct home loan portfolio is accounted for based on estimated cash flows expected to be collected over the life of the loans. Because the credit mark established at acquisition for these loans takes into consideration future credit losses expected to be incurred, there are no charge-offs or an allowance associated with these loans unless the estimated cash flows expected to be collected decrease subsequent to acquisition.

*Non-Interest Expense:* Non-interest expense decreased by \$53 million, or 6%, in the first quarter of 2013 to \$890 million. The decrease was largely due to the absence of ING Direct acquisition-related costs incurred in the first quarter of 2012, which was partially offset by increased expenses related to the growth in our auto loan portfolio.

*Loans Held for Investment:* Period-end loans held for investment in our Consumer Banking business declined by \$1.5 billion, or 2%, in the first quarter of 2013, to \$73.6 billion as of March 31, 2013, due to the continued expected run-off of acquired home loans, which was partially offset by higher period-end auto balances due to the continued high volume of auto loan originations.

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

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

**Commercial Banking Business**

Our Commercial Banking business generated net income from continuing operations of \$203 million in the first quarter of 2013, a decrease of \$7 million, or 3%, from net income from continuing operations of \$210 million in the first quarter of 2012. The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees. Because we have some affordable housing tax-related investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis. Expenses primarily consist of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services and communications and data processing technology expenses, as well as marketing expenditures.

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

**Table 9: Commercial Banking Business Results**

| (Dollars in millions)  | Three Months Ended March 31, |           | Change  |
|--|------------------------------|-----------|---------|
|  | 2013                         | 2012      |         |
| <b>Selected income statement data:</b>                             |                              |           |         |
| Net interest income  | \$ 454                       | \$ 431    | 5%      |
| Non-interest income  | 84                           | 85        | (1)     |
| Total net revenue  | 538                          | 516       | 4       |
| Provision for credit losses  | (35)                         | (69)      | (49)    |
| Non-interest expense   | 258                          | 261       | (1)     |
| Income from continuing operations before income taxes              | 315                          | 324       | (3)     |
| Income tax provision   | 112                          | 114       | (2)     |
| Income from continuing operations, net of tax                      | \$ 203                       | \$ 210    | (3)%    |
| <b>Selected performance metrics:</b>                               |                              |           |         |
| Average loans held for investment: <sup>(1)</sup>                  |                              |           |         |
| Commercial and multifamily real estate                             | \$ 17,454                    | \$ 15,514 | 13%     |
| Commercial and industrial  | 19,949                       | 17,038    | 17      |
| Total commercial lending   | 37,403                       | 32,552    | 15      |
| Small-ticket commercial real estate                                | 1,173                        | 1,480     | (21)    |
| Total commercial banking   | \$ 38,576                    | \$ 34,032 | 13%     |
| Average yield on loans held for investment: <sup>(2)</sup>         |                              |           |         |
| Average deposits   | \$ 30,335                    | \$ 27,569 | 10%     |
| Average deposit interest rate                                      | 0.28%                        | 0.37%     | (9)bps  |
| Core deposit intangible amortization                               | \$ 7                         | \$ 9      | (22)%   |
| Net charge-offs  | 7                            | 16        | (56)    |
| Net charge-off rate <sup>(3)</sup>                                 | 0.07%                        | 0.19%     | (12)bps |
| Net charge-off rate (excluding acquired loans) <sup>(3)</sup>      | 0.07                         | 0.19      | (12)    |
| <b>Selected period-end data:</b>                                   |                              |           |         |
| Loans held for investment:   |                              |           |         |
| Commercial and multifamily real estate                             | \$ 17,878                    | \$ 17,732 | 1%      |
| Commercial and industrial  | 20,127                       | 19,892    | 1       |
| Total commercial lending   | 38,005                       | 37,624    | 1       |
| Small-ticket commercial real estate                                | 1,145                        | 1,196     | (4)     |
| Total commercial banking   | \$ 39,150                    | \$ 38,820 | 1%      |
| Nonperforming loans rate <sup>(5)</sup>                            | 0.71%                        | 0.73%     | (2)bps  |
| Nonperforming loans rate (excluding acquired loans) <sup>(4)</sup> | 0.71                         | 0.73      | (2)     |
| Nonperforming asset rate <sup>(6)</sup>                            | 0.74                         | 0.77      | (3)     |
| Nonperforming asset rate (excluding acquired loans) <sup>(4)</sup> | 0.75                         | 0.78      | (3)     |

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|   |           |           |         |
|---|-----------|-----------|---------|
| Allowance for loan and lease losses     | \$ 342    | \$ 433    | (21)%   |
| Allowance coverage ratio <sup>(7)</sup> | 0.87%     | 1.12%     | (25)bps |
| Deposits                                | \$ 30,275 | \$ 29,866 | 1%      |

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

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

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

*Net Interest Income:* Net interest income increased by \$23 million, or 5%, in the first quarter of 2013 to \$454 million. The increase was primarily driven by higher deposit balances and growth in commercial real estate and commercial and industrial loans.

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

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

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

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

*Deposits:* Period-end deposits in the Commercial Banking business increased by \$409 million, or 1%, to \$30.3 billion as of March 31, 2013, from \$29.9 billion as of December 31, 2012, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

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*Charge-off Statistics:* The net charge-off rate decreased to 0.07% in the first quarter of 2013, from 0.19% in the first quarter of 2012. The nonperforming loan rate decreased to 0.71% as of March 31, 2013, from 0.73% as of December 31, 2012. The improvement in the credit metrics in our Commercial Banking business reflected a continued improvement in credit trends and strengthening of underlying collateral values, resulting in lower loss severities.

**Other Category**

Net loss from continuing operations recorded in Other was \$128 million in the first quarter of 2013, compared with net income from continuing operations of \$505 million in the first quarter of 2012. Other includes the residual impact of the allocation of our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, to our business segments. Accordingly, net gains and losses on our investment securities portfolio and certain trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains (losses) on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as acquisition and restructuring charges; provisions for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

**Table 10: Other Results**

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

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

The shift in the Other category to a net loss from continuing operations of \$128 million in the first quarter of 2013, from net income from continuing operations of \$505 million in the first quarter of 2012 was primarily due to the recognition of the bargain purchase gain of \$594 million related to the ING Direct acquisition in the first quarter of 2012, which was partially offset by a derivative loss of \$78 million recognized in the first quarter of 2012 related to the interest rate swaps we entered into in 2011 to partially hedge the interest rate risk of the net assets associated with the expected ING Direct acquisition.

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**CONSOLIDATED BALANCE SHEET ANALYSIS AND CREDIT PERFORMANCE**

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

Following is a discussion of material changes in the major components of our assets and liabilities in the first quarter of 2013. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing our ability to manage liquidity requirements for the company and our customers and our market risk exposure in accordance with our risk appetite.

**Investment Securities**

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

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



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

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

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

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

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

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

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

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

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

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



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

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

**Credit Ratings**

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

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

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

| (Dollars in millions)           | March 31, 2013 |       |                        |                                     | December 31, 2012 |       |                        |                                     |
|---------------------------------|----------------|-------|------------------------|-------------------------------------|-------------------|-------|------------------------|-------------------------------------|
|                                 | Amortized Cost | AAA % | Other Investment Grade | Below Investment Grade or Not Rated | Amortized Cost    | AAA % | Other Investment Grade | Below Investment Grade or Not Rated |
| Non-agency RMBS                 | \$ 3,499       | 98    | 2                      | 95                                  | \$ 3,607          | 97    | 3                      | 95                                  |
| Non-agency CMBS                 | 1,686          | 88    | 11                     | 1                                   | 1,425             | 82    | 17                     | 1                                   |
| Other asset-backed securities   | 7,298          | 46    | 44                     | 10                                  | 8,393             | 67    | 24                     | 9                                   |
| Other securities <sup>(1)</sup> | 1,369          |       |                        |                                     | 1,120             |       |                        |                                     |

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

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

**Loans Held for Investment**

Total loans that we manage consist of held-for-investment loans recorded on our consolidated balance sheets and loans held in our securitization trusts. Loans underlying our securitization trusts are reported on our consolidated balance sheets in restricted loans for securitization investors. Table 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of March 31, 2013 and December 31, 2012.

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

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

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

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

We provide additional information on the composition of our loan portfolio and credit quality below in [Credit Risk Profile](#) and in [Note 4 Loans](#).

**Loans Held for Sale**

Loans held for sale, which are carried at lower of cost or fair value, increased to \$6.4 billion as of March 31, 2013, from \$201 million as of December 31, 2012. The increase was due to the transfer of the Best Buy loan portfolio to held for sale from held for investment in the first quarter of 2013. At the time of the transfer, the portfolio had loan balances of approximately \$7 billion. The Best Buy portfolio had outstanding loan balances of \$6.3 billion as of March 31, 2013.

**Customer Deposits**

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

**Securitized Debt Obligations**

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

**Other Debt**

Other debt, which consists of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including junior subordinated debt and FHLB advances, but exclude securitized debt obligations, totaled \$26.4 billion as of March 31, 2013, of which \$12.2 billion represented short-term borrowings and \$14.2 billion represented long-term debt. Other debt decreased \$12.1 billion in the first quarter of 2013 from a total \$38.5 billion as of December 31, 2012, of which \$21.1 billion represented short-term borrowings and \$17.4 billion represented long-term borrowings.

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

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

**Potential Mortgage Representation & Warranty Liabilities**

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

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported in our condensed consolidated balance sheets as a component of other liabilities. The aggregate reserves for all three subsidiaries totaled \$994 million as of March 31, 2013, compared with \$899 million as of December 31, 2012, and \$1.1 billion as of March 31, 2012.

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

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

| (Dollars in millions)  | Three Months Ended March 31, |          | Full         |
|--|------------------------------|----------|--------------|
|  | 2013                         | 2012     | Year<br>2012 |
| Representation and warranty repurchase reserve, beginning of period <sup>(1)</sup> | \$ 899                       | \$ 943   | \$ 943       |
| Provision for mortgage representation and warranty losses <sup>(2)</sup>           | 97                           | 169      | 349          |
| Net realized losses  | (2)                          | (11)     | (393)        |
| Representation and warranty repurchase reserve, end of period <sup>(1)</sup>       | \$ 994                       | \$ 1,101 | \$ 899       |

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

(2) The pre-tax portion of the provision for mortgage representation and warranty losses recognized in our condensed consolidated statements of income as a component of non-interest income was negative \$10 million in the first quarter of 2013, compared with expense of \$16 million in the first quarter of 2012. The pre-tax portion of the provision for mortgage representation and warranty losses recognized in our consolidated statements of income as a component of discontinued operations totaled \$107 million and \$153 million in the first quarter of 2013 and 2012, respectively.

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

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

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### **OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES**

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

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. The carrying amount of assets and liabilities of these unconsolidated VIEs was \$2.8 billion and \$401 million, respectively, as of March 31, 2013, and our maximum exposure to loss was \$2.8 billion. We provide a discussion of our activities related to these VIEs in Note 6 Variable Interest Entities and Securitizations.

### **CAPITAL MANAGEMENT**

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

#### **Capital Standards and Prompt Corrective Action**

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the Office of the Comptroller of the Currency ( OCC ), respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of assets and off-balance sheet items. Under the capital adequacy standards, bank holding companies and banks currently are required to maintain a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4%, and a Tier 1 leverage capital ratio of at least 4% (3% for banks that meet certain specified criteria, including excellent asset quality, high liquidity, low interest rate exposure and the highest regulatory rating) in order to be considered adequately capitalized.

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





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

Table 15 provides a comparison of our capital ratios under the Federal Reserve's capital adequacy standards; and the capital ratios of the Banks under the OCC's capital adequacy standards as of March 31, 2013 and December 31, 2012.

**Table 15: Capital Ratios Under Basel I<sup>(1)</sup>**

| (Dollars in millions)                         | March 31, 2013 |                  |                  | December 31, 2012 |                          |                  |
|---|----------------|------------------|------------------|-------------------|--------------------------|------------------|
|   | Capital Ratio  | Capital Adequacy | Well Capitalized | Capital Ratio     | Minimum Capital Adequacy | Well Capitalized |
| <b>Capital One Financial Corp:</b>            |                |                  |                  |                   |                          |                  |
| Tier 1 common <sup>(2)</sup>                  | 11.79%         | N/A              | N/A              | 10.96%            | N/A                      | N/A              |
| Tier 1 risk-based capital <sup>(3)</sup>      | 12.18          | 4.00%            | 6.00%            | 11.34             | 4.00%                    | 6.00%            |
| Total risk-based capital <sup>(4)</sup>       | 14.43          | 8.00             | 10.00            | 13.56             | 8.00                     | 10.00            |
| Tier 1 leverage <sup>(5)</sup>                | 9.15           | 4.00             | N/A              | 8.66              | 4.00                     | N/A              |
| <b>Capital One Bank (USA) N.A. ( COBNA ):</b> |                |                  |                  |                   |                          |                  |
| Tier 1 risk-based capital <sup>(3)</sup>      | 11.91%         | 4.00%            | 6.00%            | 11.32%            | 4.00%                    | 6.00%            |
| Total risk-based capital <sup>(4)</sup>       | 15.43          | 8.00             | 10.00            | 14.74             | 8.00                     | 10.00            |
| Tier 1 leverage <sup>(5)</sup>                | 10.16          | 4.00             | 5.00             | 10.43             | 4.00                     | 5.00             |
| <b>Capital One, N.A. ( CONA ):</b>            |                |                  |                  |                   |                          |                  |
| Tier 1 risk-based capital <sup>(3)</sup>      | 13.45%         | 4.00%            | 6.00%            | 13.59%            | 4.00%                    | 6.00%            |
| Total risk-based capital <sup>(4)</sup>       | 14.60          | 8.00             | 10.00            | 14.85             | 8.00                     | 10.00            |
| Tier 1 leverage <sup>(5)</sup>                | 9.01           | 4.00             | 5.00             | 9.15              | 4.00                     | 5.00             |

(1) Calculated under capital standards and regulations based on the international capital framework commonly known as Basel I. Capital ratios that are not applicable are denoted by N/A.

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

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

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

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

Our Tier 1 common ratio, as calculated under Basel I, increased to 11.79% as of March 31, 2013, up from 10.96% as of December 31, 2012. The increase in our Tier 1 common ratio reflected strong internal capital generation from earnings. We exceeded minimum capital requirements and would meet the well capitalized ratio levels specified under prompt corrective action for Tier 1 risk-based capital, total risk-based capital and Tier 1 leverage under Federal Reserve capital standards for bank holding companies as of both March 31, 2013 and December 31, 2012. The Banks also exceeded minimum regulatory requirements under the OCC's applicable capital adequacy guidelines and were well capitalized under prompt corrective action requirements as of both March 31, 2013 and December 31, 2012.

**Recent Developments in Capital Requirements**

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

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

### **Dividends**

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

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

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Funds available for dividend payments from COBNA and CONA were \$4.3 billion and \$791 million, respectively, as of March 31, 2013. There can be no assurance that we will declare and pay any dividends. For additional information on dividends, see Item 1. Business Supervision and Regulation Dividends, Stock Purchases and Transfer of Funds in our 2012 Form 10-K.

## **RISK MANAGEMENT**

### **Overview**

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

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

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

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

## **CREDIT RISK PROFILE**

Our loan portfolio accounts for the substantial majority of our credit risk exposure. Below we provide information about the composition of our loan portfolio, key concentrations and credit performance metrics.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, foreign exchange transactions and deposit overdrafts. We provide additional information on credit risk related to our investment securities portfolio under Consolidated Balance Sheet Analysis Investment Securities and credit risk related to derivative transactions in Note 9 Derivative Instruments and Hedging Activities.

### **Loan Portfolio Composition**

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

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

**Table of Contents****Table 16: Loan Portfolio Composition<sup>(1)</sup>**

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

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

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

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

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

**Credit Risk Measurement**

We closely monitor economic conditions and loan performance trends to assess and manage our exposure to credit risk. Key metrics we track in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as charge-off rates and our internal risk ratings of larger balance, commercial loans. Trends in delinquency rates are a primary indicator of credit risk within our consumer loan portfolios, as changes in delinquency rate provide an early warning of changes in credit losses. The primary indicator of credit risk in our commercial loan portfolios is risk ratings. Because we generally classify loans that have been delinquent for an extended period of time and

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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.

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

As noted above, our Credit Card business accounted for \$78.4 billion, or 41%, of our total loan portfolio as of March 31, 2013, with Domestic Card accounting for \$70.4 billion, or 37%, of our total loan portfolio as of March 31, 2013. In comparison, our Credit Card business accounted for \$91.8 billion, or 45%, of our total loan portfolio as of December 31, 2012, with Domestic Card accounting for \$83.1 billion, or 40%, of our total loan portfolio as of December 31, 2012. Based on our most recent data, we estimate that approximately one-third of our Domestic Card portfolio had credit scores less than 660 or no score, based on loan balances, as of March 31, 2013, relatively consistent with the proportion of the Domestic Card portfolio with credit scores below 660 or no score as of December 31, 2012. For loans related to the 2012 U.S. card acquisition and certain other partnerships, data is obtained on a lagged basis.

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

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

### ***Delinquency Rates***

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Table 17 compares 30+ day performing and total 30+ day delinquency rates, by loan category, as of March 31, 2013 and December 31, 2012. Table 17 also presents these metrics adjusted to exclude from the denominator acquired loans accounted for based on estimated cash flows expected to be collected over the life of the loans.

Our 30+ day delinquency metrics include all held-for-investment loans that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due and that are also currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are generally the same for credit card loans, as we continue to classify the substantial majority of credit card loans as performing until the account is charged-off, typically when the account is 180 days past due. See Note 1 Summary of Significant Accounting Policies Loans in our 2012 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

**Table of Contents****Table 17: 30+ days Delinquencies**

| (Dollars in millions)                      | March 31, 2013     |                     |                              |               |                     |                              | December 31, 2012  |                     |                              |               |                     |                              |
|--|--------------------|---------------------|------------------------------|---------------|---------------------|------------------------------|--------------------|---------------------|------------------------------|---------------|---------------------|------------------------------|
|  | 30+ Day Performing |                     |                              | 30+ Day Total |                     |                              | 30+ Day Performing |                     |                              | 30+ Day Total |                     |                              |
|  | Amount             | Rate <sup>(1)</sup> | Adjusted Rate <sup>(2)</sup> | Amount        | Rate <sup>(1)</sup> | Adjusted Rate <sup>(2)</sup> | Amount             | Rate <sup>(1)</sup> | Adjusted Rate <sup>(2)</sup> | Amount        | Rate <sup>(1)</sup> | Adjusted Rate <sup>(2)</sup> |
| <b>Credit Card business:</b>               |                    |                     |                              |               |                     |                              |                    |                     |                              |               |                     |                              |
| Domestic credit card and installment loans | \$ 2,374           | 3.37%               | 3.38%                        | \$ 2,374      | 3.37%               | 3.38%                        | \$ 3,001           | 3.61%               | 3.62%                        | \$ 3,001      | 3.61%               | 3.62%                        |
| International credit card                  | 325                | 4.04                | 4.04                         | 396           | 4.93                | 4.93                         | 308                | 3.58                | 3.58                         | 387           | 4.49                | 4.49                         |
| Total credit card                          | 2,699              | 3.44                | 3.45                         | 2,770         | 3.53                | 3.54                         | 3,309              | 3.61                | 3.62                         | 3,388         | 3.69                | 3.70                         |
| <b>Consumer Banking business:</b>          |                    |                     |                              |               |                     |                              |                    |                     |                              |               |                     |                              |
| Automobile                                 | 1,560              | 5.58                | 5.59                         | 1,655         | 5.92                | 5.93                         | 1,900              | 7.00                | 7.01                         | 2,049         | 7.55                | 7.56                         |
| Home loan                                  | 57                 | 0.14                | 0.75                         | 352           | 0.84                | 4.63                         | 59                 | 0.13                | 0.77                         | 380           | 0.86                | 4.94                         |
| Retail banking                             | 32                 | 0.83                | 0.84                         | 59            | 1.58                | 1.59                         | 30                 | 0.76                | 0.77                         | 81            | 2.07                | 2.09                         |
| Total consumer banking                     | 1,649              | 2.24                | 4.20                         | 2,066         | 2.81                | 5.27                         | 1,989              | 2.65                | 5.14                         | 2,510         | 3.34                | 6.49                         |
| <b>Commercial Banking business:</b>        |                    |                     |                              |               |                     |                              |                    |                     |                              |               |                     |                              |
| Commercial and multifamily real estate     | 107                | 0.60                | 0.60                         | 207           | 1.16                | 1.17                         | 140                | 0.79                | 0.79                         | 248           | 1.40                | 1.41                         |
| Commercial and industrial                  | 57                 | 0.28                | 0.29                         | 122           | 0.60                | 0.61                         | 73                 | 0.37                | 0.37                         | 135           | 0.68                | 0.69                         |
| Total commercial lending                   | 164                | 0.43                | 0.43                         | 329           | 0.87                | 0.87                         | 213                | 0.57                | 0.57                         | 383           | 1.02                | 1.03                         |
| Small-ticket commercial real estate        | 18                 | 1.56                | 1.56                         | 42            | 3.68                | 3.68                         | 33                 | 2.74                | 2.74                         | 43            | 3.60                | 3.60                         |
| Total commercial banking                   | 182                | 0.46                | 0.47                         | 371           | 0.95                | 0.96                         | 246                | 0.63                | 0.64                         | 426           | 1.10                | 1.11                         |
| <b>Other:</b>                              |                    |                     |                              |               |                     |                              |                    |                     |                              |               |                     |                              |
| Other loans                                | 8                  | 4.75                | 6.09                         | 29            | 16.54               | 21.22                        | 11                 | 5.72                | 6.95                         | 36            | 19.25               | 23.38                        |
| Total                                      | \$ 4,538           | 2.37%               | 2.90%                        | \$ 5,236      | 2.74%               | 3.35%                        | \$ 5,555           | 2.70%               | 3.29%                        | \$ 6,360      | 3.09%               | 3.77%                        |

(1) Calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category, including acquired loans as applicable.

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





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

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

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

<sup>(1)</sup> Calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total held-for-investment loan portfolio, including acquired loans.

Table 19 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of March 31, 2013 and December 31, 2012. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ( FFIEC ), we generally continue to accrue interest and fees on domestic credit card loans through the date of charge-off, which is typically in the period the account becomes 180 days past due. While domestic credit card loans typically remain on accrual status until the loan is charged-off, we reduce the balance of our credit card receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

**Table 19: 90+ Days Delinquent Loans Accruing Interest**

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

- (1) Delinquency rates are calculated by loan category by dividing 90+ day delinquent loans accruing interest as of the end of the period by period-end loans held for investment for the specified loan category, including acquired loans as applicable.
- (2) Calculated by dividing loans in each geographic region as of the end of the period by the total loan portfolio.

**Table of Contents****Nonperforming Assets**

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

Table 20 presents comparative information on nonperforming loans, by loan category, as of March 31, 2013 and December 31, 2012, and the ratio of nonperforming loans to our total loans. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value.

**Table 20: Nonperforming Loans and Other Nonperforming Assets<sup>(1)(2)</sup>**

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

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

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

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- (2) The nonperforming loan ratio, excluding acquired loans from the denominator, for home loan, retail banking, total consumer banking, commercial and multifamily real estate, commercial and industrial, total commercial banking and total nonperforming loans held for investment was 5.30%, 1.24%, 1.39%, 0.72%, 0.61%, 0.71% and 0.60%, respectively, as of March 31, 2013, compared with 5.48%, 1.83%, 1.66%, 0.78%, 0.68%, 0.73% and 0.62%, respectively, as of December 31, 2012. The nonperforming asset ratio, excluding acquired loans from the denominator, was 0.74% and 0.76% as of March 31, 2013 and December 31, 2012, respectively.
- (3) We recognized interest income for loans classified as nonperforming of \$10 million and \$12 million in the first quarter of 2013 and 2012, respectively. Interest income foregone related to nonperforming loans was \$22 million in the first quarter of both 2013 and 2012. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.
- (4) Nonperforming loans as a percentage of loans held for investment, excluding credit card loans from the denominator, was 0.83% and 0.92% as of March 31, 2013 and December 31, 2012, respectively.
- (5) Includes foreclosed properties related to acquired loans of \$157 million and \$167 million as of March 31, 2013 and December 31, 2012, respectively.

**Net Charge-Offs**

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

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

**Table 21: Net Charge-Offs**

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

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

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

**Table of Contents****Loan Modifications and Restructurings**

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

Table 22 presents the loan balances as of March 31, 2013 and December 31, 2012 of loan modifications made as part of our loss mitigation efforts, all of which are considered to be TDRs. Table 22 excludes loan modifications that do not meet the definition of a TDR and acquired loans accounted for based on expected cash flows, which we track and report separately.

**Table 22: Loan Modifications and Restructurings**

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

<sup>(1)</sup> Amount reported reflects the total outstanding customer balance, which consists of unpaid principal balance, accrued interest and fees. The vast majority of our credit card TDR loan modifications involve a reduction in the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve a reduction and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. In all cases, we cancel the customer's available line of credit on the credit card. If the cardholder does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged-off in accordance with our standard charge-off policy.

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The majority of our modified home loans involve a combination of an interest rate reduction, term extension or principal reduction. The vast majority of modified commercial loans include a reduction in interest rate or a term extension.

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

### ***Impaired Loans***

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Loans defined as individually impaired, based on applicable accounting guidance, include larger balance commercial nonperforming loans and TDR loans. We do not report nonperforming consumer loans that have not been modified in a TDR as individually impaired, as we collectively evaluate these smaller-balance homogenous loans for impairment in accordance with applicable accounting guidance. Loans held for sale are also not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude acquired loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred, as discussed above under Summary of Selected Financial Data.

Impaired loans, including TDRs, totaled \$2.0 billion as of both March 31, 2013 and December 31, 2012. TDRs accounted for \$1.8 billion of impaired loans as of both March 31, 2013 and December 31, 2012. We provide additional information on our impaired loans, including the allowance established for these loans, in Note 4 Loans and Note 5 Allowance for Loan and Lease Losses.

### **Allowance for Loan and Lease Losses**

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease credit losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held-for-sale loans or acquired loans that are performing in accordance with or better than our expectations as of the date of acquisition, as the fair values of these loans already reflect a credit component. See Note 1 Summary of Significant Accounting Policies Allowance for Loan and Lease Losses in our 2012 Form 10-K for information on the methodology for determining our allowance for loan and lease losses for each of our loan categories.

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Table 23 displays changes in our allowance for loan and lease losses in the first quarter of 2013 and 2012, details, by loan type, the provision for credit losses recognized in our consolidated statements of income each period and charge-offs recorded against the allowance for loan and lease losses.

**Table 23: Allowance for Loan and Lease Losses Activity**

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



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

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- (1) The total provision for credit losses reported in our consolidated statements of income of \$885 million and \$573 million in the first quarter of 2013 and 2012, respectively, consists of a provision for loan and lease losses and a provision for unfunded lending commitments. The provision for credit losses reported in the above table relates only to the provision for loan and lease losses. It does not include the provision for unfunded lending commitments of \$50 million in the first quarter of 2013 and the negative provision for unfunded lending commitments of \$6 million in the first quarter of 2012.
- (2) Consists of a reduction in the allowance of \$289 million, which was attributable to the transfer of the Best Buy loan portfolio to held for sale from held for investment in the first quarter of 2013, and a foreign translation gain of \$17 million as of March 31, 2013. Consists of a foreign translation loss of \$11 million as of March 31, 2012.

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

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

| (Dollars in millions)   | March 31, 2013 |                                     | December 31, 2012 |                                     |
|---|----------------|-------------------------------------|-------------------|-------------------------------------|
|   | Amount         | % of Total HFI Loans <sup>(1)</sup> | Amount            | % of Total HFI Loans <sup>(1)</sup> |
| <b>Credit Card business:</b>                                    |                |                                     |                   |                                     |
| Domestic credit card and installment loans                      | \$ 3,057       | 4.34%                               | \$ 3,526          | 4.24%                               |
| International credit card                                       | 437            | 5.44                                | 453               | 5.26                                |
| Total credit card   | 3,494          | 4.46                                | 3,979             | 4.34                                |
| <b>Consumer Banking business:</b>                               |                |                                     |                   |                                     |
| Auto  | 528            | 1.89                                | 486               | 1.79                                |
| Home loan   | 103            | 0.25                                | 113               | 0.26                                |
| Retail banking  | 112            | 2.99                                | 112               | 2.87                                |
| Total consumer banking  | 743            | 1.01                                | 711               | 0.95                                |
| <b>Commercial Banking business:</b>                             |                |                                     |                   |                                     |
| Commercial and multifamily real estate                          | 140            | 0.78                                | 239               | 1.35                                |
| Commercial and industrial                                       | 145            | 0.72                                | 116               | 0.58                                |
| Total commercial lending  | 285            | 0.75                                | 355               | 0.94                                |
| Small-ticket commercial real estate                             | 57             | 4.98                                | 78                | 6.52                                |
| Total commercial banking  | 342            | 0.87                                | 433               | 1.12                                |
| Other loans   | 27             | 15.61                               | 33                | 17.65                               |
| Total   | \$ 4,606       | 2.41%                               | \$ 5,156          | 2.50%                               |
| <b>Total allowance coverage ratios:</b>                         |                |                                     |                   |                                     |
| Period-end loans held for investment                            | \$ 191,333     | 2.41%                               | \$ 205,889        | 2.50%                               |
| Period-end loans held for investment (excluding acquired loans) | 156,390        | 2.95                                | 168,755           | 3.02                                |
| Nonperforming loans <sup>(2)</sup>                              | 936            | 492.09                              | 1,054             | 489.18                              |
| <b>Allowance coverage ratios by loan category:</b>              |                |                                     |                   |                                     |
| Credit card (30 + day delinquent loans)                         | \$ 2,770       | 126.14%                             | \$ 3,388          | 117.44%                             |
| Consumer banking (30 + day delinquent loans)                    | 2,066          | 35.96                               | 2,510             | 28.33                               |
| Commercial banking (nonperforming loans)                        | 277            | 123.47                              | 282               | 153.55                              |

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- (1) Calculated based on the allowance for loan and lease losses attributable to each loan category divided by the outstanding balance of loans within the specified loan category.
- (2) As permitted by regulatory guidance issued by the FFIEC, our policy is generally not to classify domestic credit card loans as nonperforming. We generally accrue interest on domestic credit card loans through the date of charge-off, which is typically in the period that the loan becomes 180 days past due. The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance related to our credit card loans, was 118.80% as of March 31, 2013 and 111.67% as of December 31, 2012.

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

**LIQUIDITY RISK PROFILE**

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

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

**Table 25: Liquidity Reserves**

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

<sup>(1)</sup> The weighted average life of our available-for-sale securities was approximately 5.2 and 4.3 years as of March 31, 2013 and December 31, 2012, respectively.

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

**Funding**

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

**Table of Contents****Deposits**

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

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

| (Dollars in millions)                                    | Period End Balance | Three Months Ended March 31, 2013     |                  |                       | Average Deposit Rate |
|--|--------------------|---------------------------------------|------------------|-----------------------|----------------------|
|  |                    | Average Balance                       | Interest Expense | % of Average Deposits |                      |
| Non-interest bearing                                     | \$ 21,317          | \$ 20,943                             | N/A              | 9.9%                  | N/A                  |
| Negotiable order of withdrawal ( NOW ) accounts          | 43,290             | 42,213                                | \$ 64            | 20.0                  | 0.61%                |
| Money market deposit accounts                            | 104,415            | 104,085                               | 163              | 49.2                  | 0.63                 |
| Savings accounts   | 27,765             | 27,902                                | 16               | 13.2                  | 0.23                 |
| Other consumer time deposits                             | 10,053             | 10,658                                | 50               | 5.0                   | 1.88                 |
| <b>Total core deposits</b>                               | <b>206,840</b>     | <b>205,801</b>                        | <b>293</b>       | <b>97.3</b>           | <b>0.57</b>          |
| Public fund certificates of deposit of \$100,000 or more | 48                 | 51                                    |                  |                       |                      |
| Certificates of deposit of \$100,000 or more             | 4,275              | 4,344                                 | 32               | 2.1                   | 2.95                 |
| Foreign time deposits                                    | 1,247              | 1,359                                 | 1                | 0.6                   | 0.29                 |
| <b>Total customer deposits</b>                           | <b>\$ 212,410</b>  | <b>\$ 211,555</b>                     | <b>\$ 326</b>    | <b>100.0%</b>         | <b>0.62%</b>         |
| (Dollars in millions)                                    | Period End Balance | Twelve Months Ended December 31, 2012 |                  |                       | Average Deposit Rate |
|  |                    | Average Balance                       | Interest Expense | % of Average Deposits |                      |
| Non-interest bearing                                     | \$ 22,467          | \$ 19,741                             | N/A              | 9.7%                  | N/A                  |
| Negotiable order of withdrawal ( NOW ) accounts          | 40,591             | 34,179                                | \$ 212           | 16.8                  | 0.62%                |
| Money market deposit accounts                            | 104,540            | 99,734                                | 684              | 49.1                  | 0.69                 |
| Savings accounts   | 28,285             | 30,457                                | 101              | 15.0                  | 0.33                 |
| Other consumer time deposits                             | 11,028             | 12,762                                | 258              | 6.4                   | 2.02                 |
| <b>Total core deposits</b>                               | <b>206,911</b>     | <b>196,873</b>                        | <b>1,255</b>     | <b>97.0</b>           | <b>0.64</b>          |
| Public fund certificates of deposit of \$100,000 or more | 51                 | 70                                    |                  |                       |                      |
| Certificates of deposit of \$100,000 or more             | 4,444              | 4,806                                 | 144              | 2.4                   | 3.00                 |
| Foreign time deposits                                    | 1,079              | 1,305                                 | 4                | 0.6                   | 0.31                 |
| <b>Total customer deposits</b>                           | <b>\$ 212,485</b>  | <b>\$ 203,054</b>                     | <b>\$ 1,403</b>  | <b>100.0%</b>         | <b>0.69%</b>         |

Total customer deposits of \$212.4 billion as of March 31, 2013 were relatively unchanged from \$212.5 billion as of December 31, 2012. Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Brokered deposits are reported in money market deposit accounts and other consumer time deposits in the above table. Brokered deposits totaled \$9.3 billion, or 4% of total deposits, as of March 31, 2013. Brokered deposits totaled \$10.0 billion, or 5% of total deposits, as of December 31, 2012.

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



**Table of Contents****Other Funding Sources**

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

Other debt, which consists of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including junior subordinated debt and FHLB advances, but exclude securitized debt obligations, totaled \$26.4 billion as of March 31, 2013, of which \$12.2 billion represented short-term borrowings and \$14.2 billion represented long-term debt. Other debt decreased \$12.1 billion in the first quarter of 2013 from a total \$38.5 billion as of December 31, 2012, of which \$21.1 billion represented short-term borrowings and \$17.4 billion represented long-term borrowings.

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

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

Table 27 provides information on short-term borrowings, which consist of borrowings with an original contractual maturity of one year or less and, therefore, does not include the current portion of long-term debt. Our short-term borrowings typically have not represented a significant portion of our overall funding.

**Table 27: Short-Term Borrowings**

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

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

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

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

| (Dollars in millions)  | March 31, 2013 |                     |                      |                      |                      |           | Total     |
|--|----------------|---------------------|----------------------|----------------------|----------------------|-----------|-----------|
|  | Up to 1 Year   | > 1 Year to 2 Years | > 2 Years to 3 Years | > 3 Years to 4 Years | > 4 Years to 5 Years | > 5 Years |           |
| <b>Short-term borrowings:</b>  |                |                     |                      |                      |                      |           |           |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | \$ 855         | \$                  | \$                   | \$                   | \$                   | \$        | \$ 855    |
| FHLB advances  | 11,301         |                     |                      |                      |                      |           | 11,301    |
| Total short-term borrowings  | 12,156         |                     |                      |                      |                      |           | 12,156    |
| <b>Long-term debt:</b>   |                |                     |                      |                      |                      |           |           |
| Securitized debt obligations   | 3,028          | 1,598               | 1,657                | 2,678                | 1,837                | 248       | 11,046    |
| <b>Senior and subordinated notes:</b>  |                |                     |                      |                      |                      |           |           |
| Unsecured senior debt  | 2,588          | 1,661               | 2,000                | 252                  | 2,126                | 1,298     | 9,925     |
| Unsecured subordinated debt  | 606            |                     |                      | 1,162                |                      | 1,562     | 3,330     |
| Total senior and subordinated notes  | 3,194          | 1,661               | 2,000                | 1,414                | 2,126                | 2,860     | 13,255    |
| <b>Other long-term borrowings:</b>   |                |                     |                      |                      |                      |           |           |
| FHLB advances  | 32             | 931                 | 18                   | 20                   | 25                   | 9         | 1,035     |
| Total long-term debt <sup>(1)</sup>  | 6,254          | 4,190               | 3,675                | 4,112                | 3,988                | 3,117     | 25,336    |
| Total short-term borrowings and long-term debt                                       | \$ 18,410      | \$ 4,190            | \$ 3,675             | \$ 4,112             | \$ 3,988             | \$ 3,117  | \$ 37,492 |
| Percentage of total  | 49%            | 11%                 | 10%                  | 11%                  | 11%                  | 8%        | 100%      |

<sup>(1)</sup> Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of \$254 million as of March 31, 2013. We provide additional information on our short-term borrowings and long-term debt in Note 8 Deposits and Borrowings.

**Borrowing Capacity**

Under our shelf registration filed with the U.S. Securities and Exchange Commission ( SEC ) on April 30, 2012, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase



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contracts, warrants and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell, subject to market conditions. Our current shelf registration will expire three years from the filing date.

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

**Credit Ratings**

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

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

|         | March 31, 2013                          |                                    |                      | December 31, 2012                       |                                    |                      |
|---------|---|------------------------------------|----------------------|---|------------------------------------|----------------------|
|         | Capital One<br>Financial<br>Corporation | Capital One<br>Bank (USA),<br>N.A. | Capital One,<br>N.A. | Capital One<br>Financial<br>Corporation | Capital One<br>Bank (USA),<br>N.A. | Capital One,<br>N.A. |
| Moody's | Baa1                                    | A3                                 | A3                   | Baa1                                    | A3                                 | A3                   |
| S&P     | BBB                                     | BBB+                               | BBB+                 | BBB                                     | BBB+                               | BBB+                 |
| Fitch   | A-                                      | A-                                 | A-                   | A-                                      | A-                                 | A-                   |

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

**MARKET RISK PROFILE**

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

**Primary Market Risk Exposures**

Our primary sources of market risk include interest rate risk and foreign exchange risk.

**Interest Rate Risk**

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

**Foreign Exchange Risk**

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. We are exposed to changes in foreign exchange rates, which may impact the earnings of our foreign operations. We monitor and manage our

material foreign currency denominated

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

### **Market Risk Management**

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, changing the maturity and re-pricing characteristics of our various assets and liabilities. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current asset/liability management policy includes the use of derivatives to hedge material foreign currency denominated transactions to limit our earnings exposure to foreign exchange risk. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled \$59.6 billion as of March 31, 2013, compared with \$57.8 billion as of December 31, 2012.

### **Market Risk Measurement**

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

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

### ***Earnings Sensitivity***

Our earnings sensitivity measure estimates the impact on our projected 12-month base-line adjusted net interest income resulting from movements in interest rates. Adjusted net interest income consists of net interest income adjusted to include changes in the fair value of mortgage servicing rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. We recently revised two assumptions used to calculate our earnings sensitivity measures. First, in addition to our existing assets and liabilities, we now incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. We previously based our earnings sensitivity measure on the anticipated run-off of our existing assets and liabilities. Second, we revised the interest rate scenario used to measure and evaluate the impact on the baseline forecast to assess our earnings sensitivity. In measuring the sensitivity of interest rate movements on our adjusted projected net interest income, we assume an instantaneous plus or minus 200 basis point shock, with the lower rate scenario limited to zero as described above. We previously assumed a hypothetical gradual increase or decrease of 200 basis points relative to implied forward rates over the next twelve months with the lower rate scenario limited as discussed above.

**Table of Contents*****Economic Value of Equity***

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

Table 30 shows the estimated percentage impact on our projected base-line adjusted net interest income and economic value of equity, calculated under the hypothetical interest rate scenarios described above, as of March 31, 2013 and December 31, 2012. We will continue to factor into our interest rate risk management decisions the potential impact of alternative interest rate scenarios, such as stressed rate shocks as well as steepening and flattening yield curve scenarios, for our sensitivity measures.

**Table 30: Interest Rate Sensitivity Analysis**

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

Our interest rate sensitivity measures reflect that we became less asset sensitive between December 31, 2012 and March 31, 2013. Our projected net interest income and economic value of equity sensitivity measures were within our prescribed asset/liability policy limits as of March 31, 2013 and December 31, 2012.

***Limitations of Market Risk Measures***

The interest rate risk models that we use in deriving these measures incorporate contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and deposit behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

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

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**SUPERVISION AND REGULATION**

In January 2013, the Consumer Finance Protection Bureau ( CFPB ) issued several final rules pursuant to the Dodd-Frank Act that provide additional disclosure requirements and substantive limitations on our mortgage lending activities. These rules, including the Ability-to-Repay and Qualified Mortgage Standards Under the Truth in Lending Act (Regulation Z), could impact the type and amount of mortgage loans we offer, though we do not expect the regulations to have a material financial impact on us.

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

**FORWARD-LOOKING STATEMENTS**

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

To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995. Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

general economic and business conditions in the U.S., the U.K., Canada and our local markets, including conditions affecting employment levels, interest rates, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;

an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);

financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Wall Street Reform and Consumer Protection Act and the regulations promulgated thereunder, regulations governing bank capital and liquidity standards, including Basel-related initiatives and potential changes to financial accounting and reporting standards;

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

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

business disruption following the Acquisitions;

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

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

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

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

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

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

changes in the anticipated timing for closing the Sale Transaction;

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

the inability to sustain revenue and earnings growth;

increases or decreases in interest rates;

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

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

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

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

the amount and rate of deposit growth;

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

any significant disruption in our operations or technology platform;

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

our ability to control costs;

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

our ability to execute on our strategic and operational plans;



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

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

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

changes in the labor and employment markets;

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

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

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

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

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

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

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|   |                   |            |
|---|-------------------|------------|
| Total risk-based capital <sup>(7)</sup>         | <b>\$ 31,234</b>  | \$ 30,313  |
| Risk-weighted assets <sup>(8)</sup>             | <b>\$ 216,458</b> | \$ 223,472 |
| Tier 1 common ratio <sup>(9)</sup>              | <b>11.79%</b>     | 10.96%     |
| Tier 1 risk-based capital ratio <sup>(10)</sup> | <b>12.18</b>      | 11.34      |
| Total risk-based capital ratio <sup>(11)</sup>  | <b>14.43</b>      | 13.56      |

(1) Includes impact from related deferred taxes.

(2) Noncumulative perpetual preferred stock qualifies as Tier 1 capital; however, it does not qualify as Tier 1 common capital.

(3) Calculated based on tangible common equity divided by tangible assets.

(4) Amounts presented are net of tax.

(5) Disallowed goodwill and other intangible assets are net of related deferred tax liability.

(6) Consists primarily of trust preferred securities.

(7) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.

(8) Calculated based on prescribed regulatory guidelines.

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

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

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

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**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)**

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

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

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

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

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

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



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Common stock, par value \$.01 per share; 1,000,000,000 shares authorized; 634,080,553 and 631,806,585 shares issued as of March 31, 2013 and December 31, 2012, respectively, and 583,982,235 and 582,207,133 shares outstanding as of March 31, 2013 and December 31, 2012, respectively

|   |                   |            |
|---|-------------------|------------|
| Additional paid-in capital, net   | <b>26,256</b>     | 26,188     |
| Retained earnings   | <b>17,876</b>     | 16,853     |
| Accumulated other comprehensive income  | <b>473</b>        | 739        |
| Less: Treasury stock, at cost; par value \$.01 per share; 50,098,318 and 49,599,452 shares as of March 31, 2013 and December 31, 2012, respectively | <b>(3,315)</b>    | (3,287)    |
| <b>Total stockholders equity</b>  | <b>41,296</b>     | 40,499     |
| <b>Total liabilities and stockholders equity</b>  | <b>\$ 300,163</b> | \$ 312,918 |

See Notes to Condensed Consolidated Financial Statements.

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## CAPITAL ONE FINANCIAL CORPORATION

## CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

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

See Notes to Condensed Consolidated Financial Statements.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

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

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|  |          |           |
|--|----------|-----------|
| Increase (decrease) in cash and cash equivalents     | (4,312)  | 24,818    |
| Cash and cash equivalents at beginning of the period | 11,058   | 5,838     |
| Cash and cash equivalents at end of the period       | \$ 6,746 | \$ 30,656 |

**Supplemental cash flow information:**

|   |         |          |
|---|---------|----------|
| Non-cash items:   |         |          |
| Fair value of common stock issued in business acquisition         | \$ 0    | \$ 2,638 |
| Net transfers of loans held for investment to loans held for sale | 6,738   | 4        |
| Redemption of subordinated note                                   | (1,206) | 0        |
| Issuance of subordinated note                                     | 1,206   | 0        |

See Notes to Condensed Consolidated Financial Statements.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**The Company**

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

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

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

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

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

On February 17, 2012, we completed the acquisition (the ING Direct acquisition) of substantially all of the ING Direct business in the United States (ING Direct) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp. The ING Direct acquisition resulted in the addition of loans of \$40.4 billion, other assets of \$53.9 billion and deposits of \$84.4 billion as of the acquisition date.

On May 1, 2012, pursuant to the agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, HSBC), we closed the acquisition of substantially all of the assets and assumed liabilities of HSBC's credit card and private-label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) (the 2012 U.S. card acquisition, which we sometimes refer to as the HSBC U.S. card acquisition). The 2012 U.S. card acquisition included (i) the acquisition of HSBC's U.S. credit card portfolio, (ii) its on-going private label and co-branded partnerships, and (iii) other assets, including infrastructure and capabilities. At closing, we acquired approximately 27 million new active accounts, \$27.8 billion in outstanding credit card receivables designated as held for investment and \$327 million in other net assets.

***Operations and Business Segments***

Our principal operations are currently organized for management reporting purposes into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. See Note 13 Business Segments for additional information.



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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Basis of Presentation and Use of Estimates**

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

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

**Principles of Consolidation**

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

**Significant Accounting Policies**

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

***Accounting Standards Adopted in 2013***

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

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)***Offsetting Financial Assets and Liabilities*

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

*Recently Issued but Not Yet Adopted Accounting Standards**Obligations Resulting from Joint and Several Liability Arrangements*

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

**NOTE 2 DISCONTINUED OPERATIONS****Shutdown of Mortgage Origination Operations of our Wholesale Mortgage Banking Unit**

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

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

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



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

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**CAPITAL ONE FINANCIAL CORPORATION**

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

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

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

**NOTE 3 INVESTMENT SECURITIES**

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

**Securities at Amortized Cost and Fair Value**

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

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

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

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

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

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

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

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Securities Available for Sale in a Gross Unrealized Loss Position**

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

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

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

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

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

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Maturities and Yields of Securities Available for Sale**

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

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

<sup>(1)</sup> Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

| (Dollars in millions)   | Due in 1 Year<br>or Less |                                 | Due > 1 Year<br>through<br>5 Years |                                 | March 31, 2013<br>Due > 5 Years<br>through<br>10 Years |                                 | Due > 10 Years  |                                 | Total            |                                 |
|---|--------------------------|---------------------------------|------------------------------------|---------------------------------|--|---------------------------------|-----------------|---------------------------------|------------------|---------------------------------|
|   | Amount                   | Average<br>Yield <sup>(1)</sup> | Amount                             | Average<br>Yield <sup>(1)</sup> | Amount   | Average<br>Yield <sup>(1)</sup> | Amount          | Average<br>Yield <sup>(1)</sup> | Amount           | Average<br>Yield <sup>(1)</sup> |
| <b>Fair value of securities available for sale:</b>                             |                          |                                 |                                    |                                 |  |                                 |                 |                                 |                  |                                 |
| U.S. Treasury debt obligations  | \$ 200                   | 0.23%                           | \$ 846                             | 0.50%                           | \$ 0   | 0.00%                           | \$ 0            | 0.00%                           | \$ 1,046         | 0.45%                           |
| U.S. agency debt obligations <sup>(2)</sup>                                     | 102                      | 4.59                            | 0                                  | 0.00                            | 199  | 1.63                            | 0               | 0.00                            | 301              | 2.62                            |
| Corporate debt securities guaranteed by U.S. government agencies <sup>(3)</sup> | 0                        | 0.00                            | 216                                | 1.92                            | 897  | 1.78                            | 15              | 3.48                            | 1,128            | 1.83                            |
| <b>RMBS:</b>  |                          |                                 |                                    |                                 |  |                                 |                 |                                 |                  |                                 |
| Agency <sup>(4)</sup>   | 948                      | 3.14                            | 16,094                             | 2.85                            | 22,684   | 2.45                            | 1,023           | 2.79                            | 40,749           | 2.63                            |
| Non-agency  | 80                       | 8.14                            | 1,726                              | 7.77                            | 1,829  | 7.93                            | 233             | 10.02                           | 3,868            | 7.98                            |
| Total RMBS  | 1,028                    | 3.52                            | 17,820                             | 3.30                            | 24,513   | 2.82                            | 1,256           | 3.96                            | 44,617           | 3.06                            |
| <b>CMBS:</b>  |                          |                                 |                                    |                                 |  |                                 |                 |                                 |                  |                                 |
| Agency <sup>(4)</sup>   | 213                      | 1.52                            | 3,574                              | 1.96                            | 2,597  | 2.32                            | 9               | 6.85                            | 6,393            | 2.10                            |
| Non-agency  | 254                      | 3.83                            | 261                                | 3.25                            | 1,195  | 3.12                            | 20              | 3.04                            | 1,730            | 3.24                            |
| Total CMBS  | 467                      | 2.77                            | 3,835                              | 2.04                            | 3,792  | 2.57                            | 29              | 4.11                            | 8,123            | 2.34                            |
| Other ABS   | 1,181                    | 1.34                            | 5,555                              | 1.04                            | 528  | 3.33                            | 93              | 6.76                            | 7,357            | 1.31                            |
| Other securities <sup>(5)</sup>   | 566                      | 0.70                            | 487                                | 1.77                            | 185  | 2.29                            | 158             | 0.76                            | 1,396            | 1.31                            |
| <b>Total securities available for sale</b>                                      | <b>\$ 3,544</b>          | <b>2.10%</b>                    | <b>\$ 28,759</b>                   | <b>2.57%</b>                    | <b>\$ 30,114</b>                                       | <b>2.75%</b>                    | <b>\$ 1,551</b> | <b>3.79%</b>                    | <b>\$ 63,968</b> | <b>2.66%</b>                    |
| <b>Amortized cost of securities available for sale</b>                          | <b>\$ 3,537</b>          |                                 | <b>\$ 28,212</b>                   |                                 | <b>\$ 29,808</b>                                       |                                 | <b>\$ 1,491</b> |                                 | <b>\$ 63,048</b> |                                 |

(1) Yields are calculated based on the amortized cost of each security.

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

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

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

(5) Yields of tax-exempt securities are calculated on a fully taxable-equivalent ( FTE ) basis.



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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Other-Than-Temporary Impairment**

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

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

We recorded net OTTI in earnings totaling \$25 million and \$14 million for the three months ended March 31, 2013 and 2012, respectively. The cumulative non-credit related portion of OTTI on these securities recorded in AOCI totaled \$36 million of unrealized gain and \$116 million of unrealized loss as of March 31, 2013 and 2012, respectively. We estimate the portion of losses attributable to credit using a discounted cash flow model and we estimate the expected cash flows from the underlying collateral using internal information to derive key assumptions. This tool takes into consideration security specific delinquencies, product specific delinquency roll rates and expected severities. Key assumptions used in estimating the expected cash flows include default rates, loss severity and prepayment rates. Assumptions used can vary widely based on the collateral underlying the securities and are influenced by factors such as collateral type, loan interest rate, geographical location of the borrower, and borrower characteristics.

We believe the gross unrealized losses related to securities for which we have not recognized an OTTI on of \$246 million as of March 31, 2013, is attributable to issuer specific credit spreads and changes in market interest rates and asset spreads. Therefore, we currently do not expect to incur credit losses related to these securities. In addition, we have no intent to sell these securities with unrealized losses and it is not more likely than not that we will be required to sell these securities prior to recovery of their amortized cost. Accordingly, we have concluded that the impairment on these securities is not other-than-temporary.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The table below presents activity for the three months ended March 31, 2013 and 2012, related to the credit component of OTTI recognized in earnings on investment debt securities:

| (Dollars in millions)                      | Three Months Ended<br>March 31, |       |
|--|---------------------------------|-------|
|  | 2013                            | 2012  |
| Credit loss component, beginning of period | \$ 120                          | \$ 68 |
| Additions:                                 |                                 |       |
| Initial credit impairment                  | 8                               | 1     |
| Subsequent credit impairment               | 17                              | 13    |
| Total additions                            | 25                              | 14    |
| Reductions:                                |                                 |       |
| Sales of credit-impaired securities        | 0                               | 0     |
| Total reductions                           | 0                               | 0     |
| Credit loss component, end of period       | \$ 145                          | \$ 82 |

**AOCI Related to Securities Available for Sale**

The table below presents for the three months ended March 31, 2013 and 2012, the changes in AOCI, net of tax, related to our available-for-sale securities. The net unrealized gains (losses) represent the fair value adjustments recorded on available-for-sale securities, net of tax, during the period. The net reclassification adjustment for net realized losses (gains) represents the amount of those fair value adjustments, net of tax, that were recognized in earnings due to the sale of an available-for-sale security.

| (Dollars in millions)   | Three Months Ended<br>March 31, 2013 |        |              |
|---|--------------------------------------|--------|--------------|
|   | Before<br>Tax                        | Tax    | After<br>Tax |
| Beginning balance AOCI related to securities available for sale | \$ 1,129                             | \$ 426 | \$ 703       |
| Net unrealized losses   | (207)                                | (78)   | (129)        |
| Net realized gains reclassified from AOCI into earnings         | (2)                                  | (1)    | (1)          |
| Ending balance AOCI related to securities available for sale    | \$ 920                               | \$ 347 | \$ 573       |

| (Dollars in millions)   | Three Months Ended<br>March 31, 2012 |        |              |
|---|--------------------------------------|--------|--------------|
|   | Before<br>Tax                        | Tax    | After<br>Tax |
| Beginning balance AOCI related to securities available for sale | \$ 443                               | \$ 157 | \$ 286       |
| Net unrealized gains  | 22                                   | 8      | 14           |
| Net realized losses reclassified from AOCI into earnings        | 15                                   | 5      | 10           |

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|  |        |        |        |
|--|--------|--------|--------|
| Ending balance AOCI related to securities available for sale | \$ 480 | \$ 170 | \$ 310 |
|--|--------|--------|--------|

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Realized Gains and Losses on Securities Available for Sale**

The following table presents the gross realized gains and losses on the sale and redemption of available-for-sale securities recognized in earnings for the three months ended March 31, 2013 and 2012. The gross realized investment losses presented below exclude credit losses recognized in earnings attributable to OTTI. We also present the proceeds from the sale of available-for-sale investment securities for the periods presented. The investment securities we sold consists predominantly agency MBS.

| (Dollars in millions)            | Three Months Ended<br>March 31, |          |
|----------------------------------|---------------------------------|----------|
|                                  | 2013                            | 2012     |
| Gross realized investment gains  | \$ 3                            | \$ 17    |
| Gross realized investment losses | (1)                             | (6)      |
| Net realized gains               | \$ 2                            | \$ 11    |
| Total proceeds from sales        | \$ 720                          | \$ 7,337 |

**Securities Pledged**

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Bank ( FHLB ) and the Federal Reserve Bank. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities with a fair value of \$11.5 billion and \$13.8 billion as of March 31, 2013 and December 31, 2012, respectively, primarily related to FHLB transaction and Public Fund deposits. We accepted securities with a fair value of \$398 million and \$238 million as of March 31, 2013 and December 31, 2012, respectively, primarily related to our derivative transactions.

**Securities Acquired**

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****Outstanding Balance and Carrying Value of Acquired Securities***

The table below presents the outstanding contractual balance and the carrying value of the acquired credit-impaired investment debt securities as of March 31, 2013:

| <b>(Dollars in millions)</b>       | <b>March 31, 2013<br/>Purchased<br/>Credit-Impaired<br/>Securities</b> |
|------------------------------------|--|
| Contractual principal and interest | \$ 5,135   |
| Carrying value                     | \$ 2,561   |

***Changes in Accretable Yield of Acquired Securities***

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

| <b>(Dollars in millions)</b>   | <b>Purchased<br/>Credit-Impaired<br/>Securities</b> |
|--|---|
| Accretable yield as of December 31, 2011                                     | \$ 0  |
| Additions from new acquisitions <sup>(1)</sup>                               | 1,743   |
| Accretion recognized in earnings   | (202)   |
| Reductions due to disposals, transfers, and other non-credit related changes | 0   |
| Net reclassifications (to)/from nonaccretable difference                     | (29)  |
| Accretable yield as of December 31, 2012                                     | \$ 1,512  |
| Additions from new acquisitions <sup>(1)</sup>                               | 40  |
| Accretion recognized in earnings   | (60)  |
| Reductions due to disposals, transfers, and other non-credit related changes | 0   |
| Net reclassifications (to)/from nonaccretable difference                     | (116)   |
| Accretable yield as of March 31, 2013  | \$ 1,376  |

<sup>(1)</sup> Includes securities acquired from ING Direct as well as other securities purchased.

**NOTE 4 LOANS**

**Loan Portfolio Composition**

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

***Loans Acquired in Business Acquisitions***

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)***Acquired Loans Accounted for Based on Expected Cash Flows*

We use the term "acquired loans" to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and CCB acquisitions, which are accounted for based on expected cash flows to be collected. Acquired loans accounted for based on expected cash flows to be collected was \$35.0 billion as of March 31, 2013, compared with \$37.1 billion as of December 31, 2012.

We regularly update our estimate of the amount of expected principal and interest to be collected from these loans and evaluate the results on an aggregated pool basis for loans with common risk characteristics. Probable decreases in expected loan principal cash flows would trigger the recognition of impairment through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses established subsequent to acquisition, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. We increased the allowance and recorded a provision for credit losses of \$1 million for three months ended March 31, 2013 related to certain pools of acquired loans. The cumulative impairment recognized on acquired loans totaled \$58 million and \$57 million as of March 31, 2013 and December 31, 2012, respectively. The credit performance of the remaining pools has generally been in line with our expectations, and, in some cases, more favorable than expected, which has resulted in the reclassification of amounts from the nonaccretable difference to the accretable yield.

The table below presents the composition of our held-for-investment loan portfolio, including restricted loans for securitization investors, as of March 31, 2013 and December 31, 2012.

| (Dollars in millions)                             | March 31,<br>2013 | December 31,<br>2012 |
|---|-------------------|----------------------|
| <b>Credit Card business:</b>                      |                   |                      |
| Domestic credit card loans                        | \$ 69,722         | \$ 82,328            |
| International credit card loans                   | 8,036             | 8,614                |
| Total credit card loans                           | 77,758            | 90,942               |
| Domestic installment loans                        | 639               | 813                  |
| Total credit card                                 | 78,397            | 91,755               |
| <b>Consumer Banking business:</b>                 |                   |                      |
| Auto  | 27,940            | 27,123               |
| Home loan   | 41,931            | 44,100               |
| Other retail                                      | 3,742             | 3,904                |
| Total consumer banking                            | 73,613            | 75,127               |
| <b>Commercial Banking business:<sup>(1)</sup></b> |                   |                      |
| Commercial and multifamily real estate            | 17,878            | 17,732               |
| Commercial and industrial                         | 20,127            | 19,892               |
| Total commercial lending                          | 38,005            | 37,624               |
| Small-ticket commercial real estate               | 1,145             | 1,196                |
| Total commercial banking                          | 39,150            | 38,820               |

**Other:**

|             |            |            |
|-------------|------------|------------|
| Other loans | 173        | 187        |
| Total loans | \$ 191,333 | \$ 205,889 |

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



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**CAPITAL ONE FINANCIAL CORPORATION**

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

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

We transferred the net assets subject to the sale agreement to the held for sale category upon meeting the pertinent criteria for this classification during the first quarter of 2013. The loan portfolio was transferred to held for sale based upon the carrying value of the loans, including the transfer of the allowance for loan losses. All other net assets subject to the sale agreement were transferred to held for sale at fair value less costs to sell. We had total loans held for sale of \$6.4 billion and \$201 million as of March 31, 2013 and December 31, 2012, respectively. We will continue to recognize interest and fee income on the transferred loans, but will not recognize any impacts from charge-offs and recoveries unless these net charge-offs exceed the associated transferred allowance for loan losses. The amortization and accretion on the related intangibles ceased upon the transfer to the held for sale category.

**Credit Quality**

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

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

Loans 90 days or more past due totaled approximately \$1.9 billion and \$2.3 billion as of March 31, 2013 and December 31, 2012, respectively. Loans classified as nonperforming totaled \$936 million and \$1.1 billion as of March 31, 2013 and December 31, 2012, respectively.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

March 31, 2013

| (Dollars in millions)                  | Current    | 30-59<br>Days | 60-89<br>Days | ≥ 90<br>Days | Total<br>Delinquent<br>Loans | Acquired<br>Loans <sup>(1)</sup> | Total<br>Loans | ≥<br>90 Days<br>and<br>Accruing <sup>(2)</sup> | Nonperforming<br>Loans <sup>(2)</sup> |
|--|------------|---------------|---------------|--------------|------------------------------|----------------------------------|----------------|--|---------------------------------------|
| <b>Credit Card:</b>                    |            |               |               |              |                              |                                  |                |  |                                       |
| Domestic credit card                   | \$ 67,783  | \$ 701        | \$ 502        | \$ 1,171     | \$ 2,374                     | \$ 204                           | \$ 70,361      | \$ 1,171                                       | \$ 0                                  |
| International credit card              | 7,640      | 154           | 90            | 152          | 396                          | 0                                | 8,036          | 104  | 90                                    |
| Total credit card                      | 75,423     | 855           | 592           | 1,323        | 2,770                        | 204                              | 78,397         | 1,275  | 90                                    |
| <b>Consumer Banking:</b>               |            |               |               |              |                              |                                  |                |  |                                       |
| Auto                                   | 26,272     | 1,165         | 395           | 95           | 1,655                        | 13                               | 27,940         | 0  | 95                                    |
| Home loan                              | 7,253      | 60            | 26            | 266          | 352                          | 34,326                           | 41,931         | 0  | 403                                   |
| Retail banking                         | 3,645      | 24            | 11            | 24           | 59                           | 38                               | 3,742          | 1  | 46                                    |
| Total consumer banking                 | 37,170     | 1,249         | 432           | 385          | 2,066                        | 34,377                           | 73,613         | 1  | 544                                   |
| <b>Commercial Banking:</b>             |            |               |               |              |                              |                                  |                |  |                                       |
| Commercial and multifamily real estate | 17,562     | 47            | 34            | 126          | 207                          | 109                              | 17,878         | 31   | 127                                   |
| Commercial and industrial              | 19,791     | 62            | 8             | 52           | 122                          | 214                              | 20,127         | 1  | 122                                   |
| Total commercial lending               | 37,353     | 109           | 42            | 178          | 329                          | 323                              | 38,005         | 32   | 249                                   |
| Small-ticket commercial real estate    | 1,103      | 20            | 10            | 12           | 42                           | 0                                | 1,145          | 1  | 28                                    |
| Total commercial banking               | 38,456     | 129           | 52            | 190          | 371                          | 323                              | 39,150         | 33   | 277                                   |
| <b>Other:</b>                          |            |               |               |              |                              |                                  |                |  |                                       |
| Other loans                            | 105        | 8             | 3             | 18           | 29                           | 39                               | 173            | 0  | 25                                    |
| Total                                  | \$ 151,154 | \$ 2,241      | \$ 1,079      | \$ 1,916     | \$ 5,236                     | \$ 34,943                        | \$ 191,333     | \$ 1,309                                       | \$ 936                                |
| % of Total loans                       | 79.0%      | 1.2%          | 0.6%          | 1.0%         | 2.7%                         | 18.3%                            | 100.0%         | 0.7%   | 0.5%                                  |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

<sup>(1)</sup> Acquired loans include loans acquired and accounted for under the accounting guidance for loans acquired in a transfer including business combinations. These loans are subsequently accounted for based on the acquired loans' expected cash flows. Excludes loans subsequently accounted for based on the acquired loans' contractual cash flows.

<sup>(2)</sup> Acquired loans are excluded from loans reported as 90 days and still accruing interest and nonperforming loans.

**Credit Card**

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



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Credit Card: Risk Profile by Geographic Region and Delinquency Status**

| (Dollars in millions)                              | Loans     | % of Total <sup>(1)</sup> | March 31, 2013 |                           | Total     | % of Total <sup>(1)</sup> |
|--|-----------|---------------------------|----------------|---------------------------|-----------|---------------------------|
|  |           |                           | Acquired Loans | % of Total <sup>(1)</sup> |           |                           |
| <b>Domestic credit card and installment loans:</b> |           |                           |                |                           |           |                           |
| California   | \$ 7,645  | 9.7%                      | \$ 21          | 0.1%                      | \$ 7,666  | 9.8%                      |
| New York   | 5,048     | 6.4                       | 17             | 0.0                       | 5,065     | 6.5                       |
| Texas  | 4,795     | 6.1                       | 16             | 0.0                       | 4,811     | 6.1                       |
| Florida  | 4,117     | 5.3                       | 12             | 0.0                       | 4,129     | 5.3                       |
| Illinois   | 3,442     | 4.4                       | 10             | 0.0                       | 3,452     | 4.4                       |
| Pennsylvania                                       | 3,296     | 4.2                       | 10             | 0.0                       | 3,306     | 4.2                       |
| Ohio   | 2,830     | 3.6                       | 9              | 0.0                       | 2,839     | 3.6                       |
| New Jersey   | 2,626     | 3.4                       | 7              | 0.0                       | 2,633     | 3.4                       |
| Michigan   | 2,475     | 3.2                       | 8              | 0.0                       | 2,483     | 3.2                       |
| Other  | 33,883    | 43.2                      | 94             | 0.1                       | 33,977    | 43.3                      |
| Total domestic credit card and installment loans   | 70,157    | 89.5                      | 204            | 0.2                       | 70,361    | 89.7                      |
| <b>International credit card:</b>                  |           |                           |                |                           |           |                           |
| United Kingdom                                     | 3,319     | 4.2                       | 0              | 0.0                       | 3,319     | 4.2                       |
| Canada   | 4,717     | 6.1                       | 0              | 0.0                       | 4,717     | 6.1                       |
| Total international credit card                    | 8,036     | 10.3                      | 0              | 0.0                       | 8,036     | 10.3                      |
| Total credit card and installment loans            | \$ 78,193 | 99.8%                     | \$ 204         | 0.2%                      | \$ 78,397 | 100.0%                    |
| <b>Selected credit metrics:</b>                    |           |                           |                |                           |           |                           |
| 30+ day delinquencies <sup>(2)</sup>               | \$ 2,734  | 3.49%                     | \$ 36          | 0.04%                     | \$ 2,770  | 3.53%                     |
| 90+ day delinquencies <sup>(2)</sup>               | 1,306     | 1.67                      | 17             | 0.02                      | 1,323     | 1.69                      |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

| (Dollars in millions)     | March 31,      |              |                |              |
|---------------------------|----------------|--------------|----------------|--------------|
|                           | 2013<br>Amount | 2013<br>Rate | 2012<br>Amount | 2012<br>Rate |
| <b>Net charge-offs:</b>   |                |              |                |              |
| Domestic credit card      | \$ 827         | 4.43%        | \$ 531         | 3.92%        |
| International credit card | 95             | 4.59         | 114            | 5.52         |
| Total <sup>(3)</sup>      | \$ 922         | 4.45%        | \$ 645         | 4.14%        |

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

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

(3) Calculated by dividing annualized net charge-offs by average credit card loans held for investment during 2013 and 2012.

The 30+ day delinquency rate for our entire credit card loan portfolio decreased to 3.53% as of March 31, 2013, from 3.69% as of December 31, 2012, reflecting underlying credit improvement trends.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Consumer Banking**

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

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

| (Dollars in millions)  | Loans    |                              | March 31, 2013<br>Acquired Loans |                              | Total    |                              |
|------------------------|----------|------------------------------|----------------------------------|------------------------------|----------|------------------------------|
|                        | Loans    | % of<br>Total <sup>(1)</sup> | Loans                            | % of<br>Total <sup>(1)</sup> | Loans    | % of<br>Total <sup>(1)</sup> |
| <b>Auto:</b>           |          |                              |                                  |                              |          |                              |
| Texas                  | \$ 4,374 | 5.9%                         | \$ 0                             | 0.0%                         | \$ 4,374 | 5.9%                         |
| California             | 2,823    | 3.8                          | 0                                | 0.0                          | 2,823    | 3.8                          |
| Florida                | 1,700    | 2.3                          | 0                                | 0.0                          | 1,700    | 2.3                          |
| Louisiana              | 1,545    | 2.1                          | 0                                | 0.0                          | 1,545    | 2.1                          |
| Georgia                | 1,442    | 2.0                          | 0                                | 0.0                          | 1,442    | 2.0                          |
| Illinois               | 1,155    | 1.6                          | 0                                | 0.0                          | 1,155    | 1.6                          |
| Ohio                   | 1,068    | 1.5                          | 0                                | 0.0                          | 1,068    | 1.5                          |
| Other                  | 13,820   | 18.8                         | 13                               | 0.0                          | 13,833   | 18.8                         |
| Total auto             | 27,927   | 38.0                         | 13                               | 0.0                          | 27,940   | 38.0                         |
| <b>Home loan:</b>      |          |                              |                                  |                              |          |                              |
| California             | 1,223    | 1.7                          | 8,679                            | 11.8                         | 9,902    | 13.5                         |
| New York               | 1,634    | 2.2                          | 1,503                            | 2.0                          | 3,137    | 4.2                          |
| Illinois               | 98       | 0.1                          | 2,711                            | 3.7                          | 2,809    | 3.8                          |
| Maryland               | 403      | 0.5                          | 1,765                            | 2.4                          | 2,168    | 2.9                          |
| New Jersey             | 387      | 0.5                          | 1,641                            | 2.2                          | 2,028    | 2.7                          |
| Virginia               | 338      | 0.5                          | 1,666                            | 2.3                          | 2,004    | 2.8                          |
| Florida                | 176      | 0.2                          | 1,760                            | 2.4                          | 1,936    | 2.6                          |
| Other                  | 3,346    | 4.5                          | 14,601                           | 19.9                         | 17,947   | 24.4                         |
| Total home loan        | 7,605    | 10.2                         | 34,326                           | 46.7                         | 41,931   | 56.9                         |
| <b>Retail banking:</b> |          |                              |                                  |                              |          |                              |
| Louisiana              | 1,339    | 1.8                          | 0                                | 0.0                          | 1,339    | 1.8                          |
| New York               | 863      | 1.2                          | 0                                | 0.0                          | 863      | 1.2                          |
| Texas                  | 806      | 1.1                          | 0                                | 0.0                          | 806      | 1.1                          |
| New Jersey             | 298      | 0.4                          | 0                                | 0.0                          | 298      | 0.4                          |
| Maryland               | 104      | 0.2                          | 19                               | 0.0                          | 123      | 0.2                          |
| Virginia               | 80       | 0.1                          | 10                               | 0.0                          | 90       | 0.1                          |
| California             | 43       | 0.1                          | 0                                | 0.0                          | 43       | 0.1                          |



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|                        |           |       |           |       |           |        |
|------------------------|-----------|-------|-----------|-------|-----------|--------|
| Other                  | 171       | 0.2   | 9         | 0.0   | 180       | 0.2    |
| Total retail banking   | 3,704     | 5.1   | 38        | 0.0   | 3,742     | 5.1    |
| Total consumer banking | \$ 39,236 | 53.3% | \$ 34,377 | 46.7% | \$ 73,613 | 100.0% |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)                    | March 31, 2013    |                           |                |                           |                |                           |                        |       |
|--|-------------------|---------------------------|----------------|---------------------------|----------------|---------------------------|------------------------|-------|
|  | Auto              |                           | Home Loan      |                           | Retail Banking |                           | Total Consumer Banking |       |
|  | Amount            | Rate                      | Amount         | Rate                      | Amount         | Rate                      | Amount                 | Rate  |
| <b>Credit performance:<sup>(2)</sup></b> |                   |                           |                |                           |                |                           |                        |       |
| 30+ day delinquencies                    | \$ 1,655          | 5.92%                     | \$ 352         | 0.84%                     | \$ 59          | 1.58%                     | \$ 2,066               | 2.81% |
| 90+ day delinquencies                    | 95                | 0.34                      | 266            | 0.63                      | 24             | 0.65                      | 385                    | 0.52  |
| Nonperforming loans                      | 95                | 0.34                      | 403            | 0.96                      | 46             | 1.23                      | 544                    | 0.74  |
|  |                   |                           |                |                           |                |                           |                        |       |
| (Dollars in millions)                    | December 31, 2012 |                           |                |                           |                |                           |                        |       |
|  | Loans             |                           | Acquired Loans |                           | Total          |                           |                        |       |
|  | Loans             | % of Total <sup>(1)</sup> | Loans          | % of Total <sup>(1)</sup> | Loans          | % of Total <sup>(1)</sup> |                        |       |
| <b>Auto:</b>                             |                   |                           |                |                           |                |                           |                        |       |
| Texas                                    | \$ 4,317          | 5.7%                      | \$ 0           | 0.0%                      | \$ 4,317       | 5.7%                      |                        |       |
| California                               | 2,676             | 3.6                       | 0              | 0.0                       | 2,676          | 3.6                       |                        |       |
| Florida                                  | 1,621             | 2.1                       | 0              | 0.0                       | 1,621          | 2.1                       |                        |       |
| Louisiana                                | 1,504             | 2.0                       | 0              | 0.0                       | 1,504          | 2.0                       |                        |       |
| Georgia                                  | 1,404             | 1.9                       | 0              | 0.0                       | 1,404          | 1.9                       |                        |       |
| Illinois                                 | 1,134             | 1.5                       | 0              | 0.0                       | 1,134          | 1.5                       |                        |       |
| Ohio                                     | 1,032             | 1.4                       | 0              | 0.0                       | 1,032          | 1.4                       |                        |       |
| Other                                    | 13,418            | 17.8                      | 17             | 0.1                       | 13,435         | 17.9                      |                        |       |
| Total auto                               | \$ 27,106         | 36.0%                     | \$ 17          | 0.1%                      | \$ 27,123      | 36.1%                     |                        |       |
|  |                   |                           |                |                           |                |                           |                        |       |
| <b>Home loan:</b>                        |                   |                           |                |                           |                |                           |                        |       |
| California                               | \$ 1,168          | 1.6%                      | \$ 9,098       | 12.1%                     | \$ 10,266      | 13.7%                     |                        |       |
| New York                                 | 1,678             | 2.2                       | 1,598          | 2.1                       | 3,276          | 4.3                       |                        |       |
| Illinois                                 | 102               | 0.1                       | 2,875          | 3.8                       | 2,977          | 3.9                       |                        |       |
| Maryland                                 | 403               | 0.5                       | 1,878          | 2.5                       | 2,281          | 3.0                       |                        |       |
| New Jersey                               | 402               | 0.5                       | 1,717          | 2.3                       | 2,119          | 2.8                       |                        |       |
| Virginia                                 | 342               | 0.5                       | 1,748          | 2.3                       | 2,090          | 2.8                       |                        |       |
| Florida                                  | 183               | 0.3                       | 1,863          | 2.5                       | 2,046          | 2.8                       |                        |       |
| Other                                    | 3,419             | 4.6                       | 15,626         | 20.8                      | 19,045         | 25.4                      |                        |       |
| Total home loan                          | \$ 7,697          | 10.3%                     | \$ 36,403      | 48.4%                     | \$ 44,100      | 58.7%                     |                        |       |
|  |                   |                           |                |                           |                |                           |                        |       |
| <b>Retail banking:</b>                   |                   |                           |                |                           |                |                           |                        |       |
| Louisiana                                | \$ 1,447          | 1.9%                      | \$ 0           | 0.0%                      | \$ 1,447       | 1.9%                      |                        |       |
| New York                                 | 864               | 1.2                       | 0              | 0.0                       | 864            | 1.2                       |                        |       |
| Texas                                    | 844               | 1.1                       | 0              | 0.0                       | 844            | 1.1                       |                        |       |
| New Jersey                               | 312               | 0.4                       | 0              | 0.0                       | 312            | 0.4                       |                        |       |
| Maryland                                 | 96                | 0.1                       | 20             | 0.1                       | 116            | 0.2                       |                        |       |
| Virginia                                 | 78                | 0.1                       | 9              | 0.0                       | 87             | 0.1                       |                        |       |
| California                               | 47                | 0.1                       | 0              | 0.0                       | 47             | 0.1                       |                        |       |
| Other                                    | 182               | 0.2                       | 5              | 0.0                       | 187            | 0.2                       |                        |       |
| Total retail banking                     | \$ 3,870          | 5.1%                      | \$ 34          | 0.1%                      | \$ 3,904       | 5.2%                      |                        |       |
| Total consumer banking                   | \$ 38,673         | 51.4%                     | \$ 36,454      | 48.6%                     | \$ 75,127      | 100.0%                    |                        |       |



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

| (Dollars in millions)          | March 31, 2013 |       |           |       |                |       |                        |       |
|--------------------------------|----------------|-------|-----------|-------|----------------|-------|------------------------|-------|
|                                | Auto           |       | Home Loan |       | Retail Banking |       | Total Consumer Banking |       |
|                                | Amount         | Rate  | Amount    | Rate  | Amount         | Rate  | Amount                 | Rate  |
| Net charge-offs <sup>(3)</sup> | \$ 122         | 1.78% | \$ 4      | 0.04% | \$ 17          | 1.85% | \$ 143                 | 0.78% |

| (Dollars in millions)          | March 31, 2012 |       |           |       |                |       |                        |       |
|--------------------------------|----------------|-------|-----------|-------|----------------|-------|------------------------|-------|
|                                | Auto           |       | Home Loan |       | Retail Banking |       | Total Consumer Banking |       |
|                                | Amount         | Rate  | Amount    | Rate  | Amount         | Rate  | Amount                 | Rate  |
| Net charge-offs <sup>(3)</sup> | \$ 80          | 1.41% | \$ 14     | 0.20% | \$ 15          | 1.39% | \$ 109                 | 0.77% |

(1) Percentages by geographic region are calculated based on the total held-for-investment consumer banking loans as of the end of the reported period.

(2) Credit performance statistics exclude acquired loans, which were recorded at fair value at acquisition. Although acquired loans may be contractually delinquent, we separately track these loans and do not include them in our delinquency and nonperforming loan statistics as the fair value recorded at acquisition included an estimate of credit losses expected to be realized over the remaining lives of the loans.

(3) Calculated by dividing annualized net charge-offs by average loans held for investment during 2013 and 2012.

**Home Loan**

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we continually monitor a variety of mortgage loan characteristics that may affect the default experience on our overall home loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices since the home price peak in 2006 and the rise in unemployment. These loan concentrations include loans originated between 2006 and 2008 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards and loans on properties in Arizona, California, Florida and Nevada, which have experienced the most severe decline in home prices. The following table presents the distribution of our home loan portfolio as of March 31, 2013 and December 31, 2012, based on selected key risk characteristics.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Home Loan: Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type**

| (Dollars in millions)                    | Loans           |                              | March 31, 2013<br>Acquired Loans |                              | Total Home Loans |                              |
|--|-----------------|------------------------------|----------------------------------|------------------------------|------------------|------------------------------|
|  | Amount          | % of<br>Total <sup>(1)</sup> | Amount                           | % of<br>Total <sup>(1)</sup> | Amount           | % of<br>Total <sup>(1)</sup> |
| Origination year:                        |                 |                              |                                  |                              |                  |                              |
| < = 2005                                 | \$ 3,327        | 8.0%                         | \$ 4,679                         | 11.2%                        | \$ 8,006         | 19.2%                        |
| 2006                                     | 597             | 1.4                          | 2,788                            | 6.6                          | 3,385            | 8.0                          |
| 2007                                     | 425             | 1.0                          | 6,023                            | 14.3                         | 6,448            | 15.3                         |
| 2008                                     | 244             | 0.6                          | 4,980                            | 11.9                         | 5,224            | 12.5                         |
| 2009                                     | 155             | 0.4                          | 3,191                            | 7.6                          | 3,346            | 8.0                          |
| 2010                                     | 177             | 0.4                          | 5,517                            | 13.2                         | 5,694            | 13.6                         |
| 2011                                     | 305             | 0.7                          | 6,070                            | 14.5                         | 6,375            | 15.2                         |
| 2012                                     | 2,191           | 5.2                          | 1,038                            | 2.5                          | 3,229            | 7.7                          |
| 2013                                     | 184             | 0.4                          | 40                               | 0.1                          | 224              | 0.5                          |
| <b>Total</b>                             | <b>\$ 7,605</b> | <b>18.1%</b>                 | <b>\$ 34,326</b>                 | <b>81.9%</b>                 | <b>\$ 41,931</b> | <b>100.0%</b>                |
| Geographic concentration: <sup>(2)</sup> |                 |                              |                                  |                              |                  |                              |
| California                               | \$ 1,223        | 2.9%                         | \$ 8,679                         | 20.7%                        | \$ 9,902         | 23.6%                        |
| New York                                 | 1,634           | 3.9                          | 1,503                            | 3.6                          | 3,137            | 7.5                          |
| Illinois                                 | 98              | 0.2                          | 2,711                            | 6.5                          | 2,809            | 6.7                          |
| Maryland                                 | 403             | 1.0                          | 1,765                            | 4.2                          | 2,168            | 5.2                          |
| New Jersey                               | 387             | 0.9                          | 1,641                            | 3.9                          | 2,028            | 4.8                          |
| Virginia                                 | 338             | 0.8                          | 1,666                            | 4.0                          | 2,004            | 4.8                          |
| Florida                                  | 176             | 0.4                          | 1,760                            | 4.2                          | 1,936            | 4.6                          |
| Arizona                                  | 92              | 0.2                          | 1,719                            | 4.1                          | 1,811            | 4.3                          |
| Washington                               | 108             | 0.3                          | 1,645                            | 3.9                          | 1,753            | 4.2                          |
| Colorado                                 | 119             | 0.3                          | 1,482                            | 3.5                          | 1,601            | 3.8                          |
| Other                                    | 3,027           | 7.2                          | 9,755                            | 23.3                         | 12,782           | 30.5                         |
| <b>Total</b>                             | <b>\$ 7,605</b> | <b>18.1%</b>                 | <b>\$ 34,326</b>                 | <b>81.9%</b>                 | <b>\$ 41,931</b> | <b>100.0%</b>                |
| Lien type:                               |                 |                              |                                  |                              |                  |                              |
| 1 <sup>st</sup> lien                     | \$ 6,445        | 15.3%                        | \$ 33,850                        | 80.8%                        | \$ 40,295        | 96.1%                        |
| 2 <sup>nd</sup> lien                     | 1,160           | 2.8                          | 476                              | 1.1                          | 1,636            | 3.9                          |
| <b>Total</b>                             | <b>\$ 7,605</b> | <b>18.1%</b>                 | <b>\$ 34,326</b>                 | <b>81.9%</b>                 | <b>\$ 41,931</b> | <b>100.0%</b>                |
| Interest rate type:                      |                 |                              |                                  |                              |                  |                              |
| Fixed rate                               | \$ 2,465        | 5.9%                         | \$ 3,772                         | 9.0%                         | \$ 6,237         | 14.9%                        |
| Adjustable rate                          | 5,140           | 12.2                         | 30,554                           | 72.9                         | 35,694           | 85.1                         |
| <b>Total</b>                             | <b>\$ 7,605</b> | <b>18.1%</b>                 | <b>\$ 34,326</b>                 | <b>81.9%</b>                 | <b>\$ 41,931</b> | <b>100.0%</b>                |



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

(1) Percentages within each risk category calculated based on total held-for-investment home loans.

(2) Represents the ten states in which we have the highest concentration of home loans.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

***Commercial Banking***

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

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

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

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

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



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

**Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating<sup>(1)</sup>**

| (Dollars in millions)                          | March 31, 2013                       |                           |                           |                           |                                     |                           |                  |                           |
|--|--------------------------------------|---------------------------|---------------------------|---------------------------|-------------------------------------|---------------------------|------------------|---------------------------|
|  | Commercial & Multifamily Real Estate | % of Total <sup>(2)</sup> | Commercial and Industrial | % of Total <sup>(2)</sup> | Small-ticket Commercial Real Estate | % of Total <sup>(2)</sup> | Total Commercial | % of Total <sup>(2)</sup> |
| <b>Geographic concentration:<sup>(3)</sup></b> |                                      |                           |                           |                           |                                     |                           |                  |                           |
| Loans:   |                                      |                           |                           |                           |                                     |                           |                  |                           |
| Northeast                                      | \$ 13,224                            | 73.9%                     | \$ 5,443                  | 27.0%                     | \$ 699                              | 61.1%                     | \$ 19,366        | 49.5%                     |
| Mid-Atlantic                                   | 1,462                                | 8.2                       | 1,170                     | 5.8                       | 45                                  | 3.9                       | 2,677            | 6.8                       |
| South  | 2,124                                | 11.9                      | 9,197                     | 45.7                      | 69                                  | 6.0                       | 11,390           | 29.1                      |
| Other  | 959                                  | 5.4                       | 4,103                     | 20.4                      | 332                                 | 29.0                      | 5,394            | 13.8                      |
| Loans  | 17,769                               | 99.4                      | 19,913                    | 98.9                      | 1,145                               | 100.0                     | 38,827           | 99.2                      |
| Acquired loans                                 | 109                                  | 0.6                       | 214                       | 1.1                       | 0                                   | 0.0                       | 323              | 0.8                       |
| Total  | \$ 17,878                            | 100.0%                    | \$ 20,127                 | 100.0%                    | \$ 1,145                            | 100.0%                    | \$ 39,150        | 100.0%                    |
| <b>Internal risk rating:<sup>(4)</sup></b>     |                                      |                           |                           |                           |                                     |                           |                  |                           |
| Loans:   |                                      |                           |                           |                           |                                     |                           |                  |                           |
| Noncriticized                                  | \$ 17,022                            | 95.2%                     | \$ 19,238                 | 95.6%                     | \$ 1,099                            | 96.0%                     | \$ 37,359        | 95.4%                     |
| Criticized performing                          | 620                                  | 3.5                       | 553                       | 2.8                       | 18                                  | 1.6                       | 1,191            | 3.1                       |
| Criticized nonperforming                       | 127                                  | 0.7                       | 122                       | 0.6                       | 28                                  | 2.4                       | 277              | 0.7                       |
| Loans  | 17,769                               | 99.4                      | 19,913                    | 99.0                      | 1,145                               | 100.0                     | 38,827           | 99.2                      |
| <b>Acquired loans:</b>                         |                                      |                           |                           |                           |                                     |                           |                  |                           |
| Noncriticized                                  | 75                                   | 0.4                       | 211                       | 1.0                       | 0                                   | 0.0                       | 286              | 0.7                       |
| Criticized performing                          | 34                                   | 0.2                       | 3                         | 0.0                       | 0                                   | 0.0                       | 37               | 0.1                       |
| Total acquired loans                           | 109                                  | 0.6                       | 214                       | 1.0                       | 0                                   | 0.0                       | 323              | 0.8                       |
| Total  | \$ 17,878                            | 100.0%                    | \$ 20,127                 | 100.0%                    | \$ 1,145                            | 100.0%                    | \$ 39,150        | 100.0%                    |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

(1) Amounts based on total loans as of March 31, 2013 and December 31, 2012.

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

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

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

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

| (Dollars in millions)                                  | March 31, 2013    |                      |                           |                   |                         |                          |                             |                            |
|--|-------------------|----------------------|---------------------------|-------------------|-------------------------|--------------------------|-----------------------------|----------------------------|
|  | With an Allowance | Without an Allowance | Total Recorded Investment | Related Allowance | Net Recorded Investment | Unpaid Principal Balance | Average Recorded Investment | Interest Income Recognized |
| <b>Credit card and installment loans:</b>              |                   |                      |                           |                   |                         |                          |                             |                            |
| Domestic credit card and installment loans             | \$ 669            | \$ 0                 | \$ 669                    | \$ 226            | \$ 443                  | \$ 649                   | \$ 685                      | \$ 17                      |
| International credit card and installment loans        | 170               | 0                    | 170                       | 101               | 69                      | 162                      | 167                         | 3                          |
| Total credit card and installment loans <sup>(1)</sup> | 839               | 0                    | 839                       | 327               | 512                     | 811                      | 852                         | 20                         |
| <b>Consumer banking:</b>                               |                   |                      |                           |                   |                         |                          |                             |                            |
| Auto   | 164               | 162                  | 326                       | 18                | 308                     | 543                      | 327                         | 15                         |
| Home loan  | 168               | 0                    | 168                       | 13                | 155                     | 196                      | 156                         | 2                          |
| Retail banking   | 78                | 17                   | 95                        | 11                | 84                      | 104                      | 96                          | 1                          |
| Total consumer banking                                 | 410               | 179                  | 589                       | 42                | 547                     | 843                      | 579                         | 18                         |
| <b>Commercial banking:</b>                             |                   |                      |                           |                   |                         |                          |                             |                            |
| Commercial and multifamily real estate                 | 170               | 107                  | 277                       | 17                | 260                     | 319                      | 279                         | 1                          |
| Commercial and industrial                              | 129               | 105                  | 234                       | 22                | 212                     | 292                      | 238                         | 1                          |
| Total commercial lending                               | 299               | 212                  | 511                       | 39                | 472                     | 611                      | 517                         | 2                          |
| Small-ticket commercial real estate                    | 5                 | 28                   | 33                        | 2                 | 31                      | 59                       | 24                          | 0                          |
| Total commercial banking                               | 304               | 240                  | 544                       | 41                | 503                     | 670                      | 541                         | 2                          |
| Total  | \$ 1,553          | \$ 419               | \$ 1,972                  | \$ 410            | \$ 1,562                | \$ 2,324                 | \$ 1,972                    | \$ 40                      |

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

<sup>(1)</sup> Credit card and installment loans include finance charges and fees.

Troubled debt restructuring ( TDR ) loans accounted for \$1.8 billion of impaired loans as of both March 31, 2013 and December 31, 2012, respectively. Consumer TDR loans classified as performing totaled \$1.1 billion and \$1.2 billion as of March 31, 2013 and December 31, 2012, respectively. Commercial TDR loans classified as performing totaled \$267 million and \$253 million as of March 31, 2013 and December 31, 2012, respectively.

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

| (Dollars in millions)                  | Three Months Ended March 31, 2013         |   |   |   |   |   |  |
|--|---|---|---|---|---|---|--|
|  | Total<br>Loans<br>Modified <sup>(1)</sup> | Reduced Interest Rate<br>%<br>of<br>TDR<br>Activity <sup>(2)(8)</sup> | Average<br>Rate<br>Reduction <sup>(3)</sup> | % of<br>TDR<br>Activity <sup>(4)(8)</sup> | Term Extension<br>Average<br>Term<br>Extension<br>(Months) <sup>(5)</sup> | Balance Reduction<br>%<br>of<br>TDR<br>Activity <sup>(6)(8)</sup> | Gross<br>Balance<br>Reduction <sup>(7)</sup> |
| <b>Credit card:</b>                    |   |   |   |   |   |   |  |
| Domestic credit card                   | \$ 76                                     | 100%  | 12.26%                                      | 0%  | 0   | 0%  | \$ 0   |
| International credit card              | 51  | 100   | 24.53                                       | 0   | 0   | 0   | 0  |
| Total credit card                      | 127                                       | 100   | 17.17                                       | 0   | 0   | 0   | 0  |
| <b>Consumer banking:</b>               |   |   |   |   |   |   |  |
| Auto                                   | 63  | 73  | 6.72  | 78  | 9   | 44  | 24   |
| Home loan                              | 11  | 61  | 2.20  | 49  | 133   | 18  | 1  |
| Retail banking                         | 10  | 3   | 3.34  | 51  | 8   | 0   | 0  |
| Total consumer banking                 | 84  | 63  | 6.14  | 71  | 20  | 35  | 25   |
| <b>Commercial banking:</b>             |   |   |   |   |   |   |  |
| Commercial and multifamily real estate | 17  | 0   | 0   | 100                                       | 8   | 0   | 0  |
| Commercial and industrial              | 1   | 0   | 0   | 100                                       | 9   | 0   | 0  |
| Total commercial lending               | 18  | 0   | 0   | 100                                       | 8   | 0   | 0  |
| Small-ticket commercial real estate    | 3   | 0   | 0   | 0   | 0   | 0   | 0  |
| Total commercial banking               | 21  | 0   | 0   | 82  | 8   | 0   | 0  |
| Total                                  | \$ 232                                    | 77%   | 13.93%                                      | 33%                                       | 17  | 13%   | \$ 25  |

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| (Dollars in millions)                  | Three Months Ended March 31, 2012         |   |   |   |   |   |  |
|--|---|---|---|---|---|---|--|
|  | Total<br>Loans<br>Modified <sup>(1)</sup> | % of<br>TDR<br>Activity <sup>(2)(8)</sup> | Average<br>Rate<br>Reduction <sup>(3)</sup> | % of<br>TDR<br>Activity <sup>(4)(8)</sup> | Average<br>Term<br>Extension<br>(Months) <sup>(5)</sup> | Balance<br>%<br>of<br>TDR<br>Activity <sup>(6)(8)</sup> | Gross<br>Balance<br>Reduction <sup>(7)</sup> |
| <b>Credit card:</b>                    |   |   |   |   |   |   |  |
| Domestic credit card                   | \$ 57                                     | 100%                                      | 10.45%                                      | 0%  | 0   | 0%  | \$ 0   |
| International credit card              | 64  | 99  | 24.05                                       | 0   | 0   | 0   | 0  |
| Total credit card                      | 121                                       | 100                                       | 17.58                                       | 0   | 0   | 0   | 0  |
| <b>Consumer banking:</b>               |   |   |   |   |   |   |  |
| Auto                                   | 25  | 71  | 1.41  | 100                                       | 10  | 0   | 0  |
| Home loan                              | 5   | 29  | 0.91  | 50  | 139   | 4   | 0  |
| Retail banking                         | 7   | 1   | 3.00  | 99  | 11  | 0   | 0  |
| Total consumer banking                 | 37  | 51  | 1.37  | 93  | 20  | 1   | 0  |
| <b>Commercial banking:</b>             |   |   |   |   |   |   |  |
| Commercial and multifamily real estate | 21  | 2   | 1.38  | 100                                       | 7   | 0   | 0  |
| Commercial and industrial              | 34  | 11  | 7.25  | 97  | 14  | 0   | 0  |
| Total commercial lending               | 55  | 7   | 6.63  | 98  | 11  | 0   | 0  |
| Small-ticket commercial real estate    | 0   | 0   | 0.00  | 0   | 0   | 0   | 0  |
| Total commercial banking               | 55  | 7   | 6.63  | 98  | 11  | 0   | 0  |
| Total                                  | \$ 213                                    | 67%                                       | 15.15%                                      | 42%                                       | 15  | 0%  | \$ 0   |

(1) Represents total loans modified and accounted for as a TDR during the period. Paydowns, charge-offs and any other changes in the loan carrying value subsequent to the loan entering TDR status are not reflected.

(2) Percentage of loans modified and accounted for as a TDR during the period that were granted a reduced interest rate.

(3) Weighted average interest rate reduction for those loans that received an interest rate concession.

(4) Percentage of loans modified and accounted for as a TDR during the period that were granted a maturity date extension.

(5) Weighted average change in maturity date for those loans that received a maturity date extension.

(6) Percentage of loans modified and accounted for as a TDR during the period that were granted forgiveness or forbearance of a portion of their balance.

(7) Total amount represents the gross balance forgiven. For loans modified in bankruptcy, the gross balance reduction represents collateral value write downs associated with the discharge of the borrower's obligations.

(8) Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

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

| (Dollars in millions)                    | Three Months Ended March 31, |                |                        |                |
|--|------------------------------|----------------|------------------------|----------------|
|  | 2013                         |                | 2012                   |                |
|  | Number of<br>Contracts       | Total<br>Loans | Number of<br>Contracts | Total<br>Loans |
| <b>Credit card:</b>                      |                              |                |                        |                |
| Domestic credit card                     | \$ 10,801                    | \$ 21          | \$ 8,629               | \$ 20          |
| International credit card <sup>(1)</sup> | 11,193                       | 34             | 12,108                 | 43             |
| Total credit card                        | 21,994                       | 55             | 20,737                 | 63             |
| <b>Consumer banking:</b>                 |                              |                |                        |                |
| Auto                                     | 2,664                        | 16             | 832                    | 8              |
| Home loan                                | 11                           | 1              | 36                     | 3              |
| Retail banking                           | 34                           | 1              | 43                     | 6              |
| Total consumer banking                   | 2,709                        | 18             | 911                    | 17             |
| <b>Commercial banking:</b>               |                              |                |                        |                |
| Commercial and multifamily real estate   | 1                            | 2              | 3                      | 2              |
| Commercial and industrial                | 7                            | 7              | 5                      | 13             |
| Total commercial lending                 | 8                            | 9              | 8                      | 15             |
| Small-ticket commercial real estate      | 0                            | 0              | 3                      | 2              |
| Total commercial banking                 | 8                            | 9              | 11                     | 17             |
| Total                                    | 24,711                       | \$ 82          | 21,659                 | \$ 97          |

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

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Outstanding Balance and Carrying Value of Acquired Loans**

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

| (Dollars in millions)         | March 31, 2013 |                |                    | December 31, 2012 |                |                    |
|-------------------------------|----------------|----------------|--------------------|-------------------|----------------|--------------------|
|                               | Total          | Impaired Loans | Non-Impaired Loans | Total             | Impaired Loans | Non-Impaired Loans |
| Contractual balance           | \$ 37,124      | \$ 5,885       | \$ 31,239          | \$ 39,321         | \$ 6,195       | \$ 33,126          |
| Carrying value <sup>(1)</sup> | \$ 34,966      | \$ 3,872       | \$ 31,095          | \$ 37,109         | \$ 4,069       | \$ 33,040          |

<sup>(1)</sup> Includes \$58 million and \$57 million of cumulative impairment recognized as of March 31, 2013 and December 31, 2012, respectively.

**Changes in Accretable Yield**

We increased the allowance related to these loans by \$1 million for the three months ended March 31, 2013. We recorded impairment through our provision for credit losses of \$1 million and \$13 million for the first three months of 2013 and 2012, respectively. The cumulative impairment recognized on these totaled \$58 million and \$57 million as of March 31, 2013 and December 31, 2012, respectively.

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

| (Dollars in millions)  | Total Loans | Impaired Loans | Non-Impaired Loans |
|--|-------------|----------------|--------------------|
| Accretable yield as of December 31, 2011   | \$ 1,752    | \$ 1,566       | \$ 186             |
| Acquired loans accretable yield <sup>(1)</sup>   | 5,616       | 306            | 5,310              |
| Accretion recognized in earnings   | (1,316)     | (390)          | (926)              |
| Reclassifications from nonaccretable difference for loans with improving cash flows <sup>(2) (3)</sup> | 860         | 448            | 412                |
| Reductions in accretable yield for non-credit related changes in expected cash flows <sup>(4)</sup>    | (704)       | (31)           | (673)              |
| Accretable yield as of December 31, 2012   | \$ 6,208    | \$ 1,899       | \$ 4,309           |
| Accretion recognized in earnings   | (300)       | (100)          | (200)              |
| Reclassifications from nonaccretable difference for loans with improving cash flows <sup>(2)</sup>     | 100         | 94             | 6                  |
| Reductions in accretable yield for non-credit related changes in expected cash flows <sup>(4)</sup>    | (174)       | (31)           | (143)              |
| Accretable yield as of March 31, 2013  | \$ 5,834    | \$ 1,862       | \$ 3,972           |



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

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Unfunded Lending Commitments**

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

In addition to available unused credit card lines, we enter into commitments to extend credit that are legally binding conditional agreements having fixed expirations or termination dates and specified interest rates and purposes. These commitments generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value ratios are the same as those for funded transactions and are established based on management's credit assessment of the customer. These commitments may expire without being drawn upon; therefore, the total commitment amount does not necessarily represent future funding requirements. The outstanding unfunded commitments to extend credit, other than credit card lines, were approximately \$18.2 billion and \$17.5 billion as of March 31, 2013 and December 31, 2012, respectively.

We maintain a reserve for unfunded loan commitments and letters of credit to absorb estimated probable losses related to these unfunded credit facilities in other liabilities on our consolidated balance sheets. Our reserve for unfunded loan commitments and letters of credit was \$85 million and \$35 million as of March 31, 2013 and December 31, 2012, respectively. See Note 5 Allowance for Loan and Lease Losses below for additional information.

**NOTE 5 ALLOWANCE FOR LOAN AND LEASE LOSSES**

We maintain an allowance for loan and lease losses that represents management's best estimate of incurred loan and lease losses inherent in our held-for-investment portfolio as of each balance sheet date. We do not maintain an allowance for held-for-sale loans or acquired loans that are performing, in accordance with or better than our expectations, as of the date of acquisition, as the fair value of these loans already reflect a credit component.

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

In the first quarter of 2013, we changed our process for estimating the allowance and reserve for unfunded lending commitments for our commercial loan portfolio. First, we extended our internal historical credit loss experience period back to at least 2008 and incorporated external industry loss data over a longer horizon to derive our loss estimates. We previously generally used the most recent three-year period of internal historical loss experience to derive our loss estimates. Second, we incorporated more borrower-specific and loan-specific risk factors into our analysis and established a statistically-based internal risk rating system. Based on this statistically-based risk rating system, we now apply an estimated probability of default and loss given default for nearly each loan in our portfolio to derive the total loss estimate for our commercial loan portfolio. These changes, which were supplemented by management judgment, resulted in a net increase in the combined allowance losses and reserve for unfunded lending commitments of \$37 million as of March 31, 2013 and a corresponding increase in the provision for credit losses of \$37 million in the first quarter of 2013. The gross impact of these changes resulted in a decrease in the allowance of \$2 million and an increase in the reserve for



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unfunded lending commitments of \$39 million as of March 31, 2013. We do not expect these changes to have a material future impact on our allowance and reserve for unfunded lending commitments for our commercial loan portfolio.

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

**Allowance for Loan and Lease Losses Activity**

The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. The provision for credit losses, which is charged to earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are included. The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, for the three months ended March 31, 2013 and 2012:

| (Dollars in millions)           | Three Months Ended March 31, 2013 |        |           |                |                |            |                      |                 | Combined                             |                  |
|---------------------------------|-----------------------------------|--------|-----------|----------------|----------------|------------|----------------------|-----------------|--------------------------------------|------------------|
|                                 | Consumer                          |        |           |                |                |            |                      | Total Allowance | Unfunded Lending Commitments Reserve | Unfunded Reserve |
|                                 | Credit Card                       | Auto   | Home Loan | Retail Banking | Total Consumer | Commercial | Other <sup>(1)</sup> |                 |                                      |                  |
| Balance as of December 31, 2012 | \$ 3,979                          | \$ 486 | \$ 113    | \$ 112         | \$ 711         | \$ 433     | \$ 33                | \$ 5,156        | \$ 35                                | \$ 5,191         |
| Provision for credit losses     | 743                               | 164    | (6)       | 17             | 175            | (85)       | 2                    | 835             | 50                                   | 885              |
| Charge-offs                     | (1,262)                           | (182)  | (7)       | (25)           | (214)          | (12)       | (8)                  | (1,496)         | 0                                    | (1,496)          |
| Recoveries                      | 340                               | 60     | 3         | 8              | 71             | 5          | 1                    | 417             | 0                                    | 417              |
| Net charge-offs                 | (922)                             | (122)  | (4)       | (17)           | (143)          | (7)        | (7)                  | (1,079)         | 0                                    | (1,079)          |
| Other changes                   | (306)                             | 0      | 0         | 0              | 0              | 1          | (1)                  | (306)           | 0                                    | (306)            |
| Balance as of March 31, 2013    | \$ 3,494                          | \$ 528 | \$ 103    | \$ 112         | \$ 743         | \$ 342     | \$ 27                | \$ 4,606        | \$ 85                                | \$ 4,691         |

| (Dollars in millions)           | Three Months Ended March 31, 2012 |        |           |                |                |            |                      |                 | Combined                             |                  |
|---------------------------------|-----------------------------------|--------|-----------|----------------|----------------|------------|----------------------|-----------------|--------------------------------------|------------------|
|                                 | Consumer                          |        |           |                |                |            |                      | Total Allowance | Unfunded Lending Commitments Reserve | Unfunded Reserve |
|                                 | Credit Card                       | Auto   | Home Loan | Retail Banking | Total Consumer | Commercial | Other <sup>(1)</sup> |                 |                                      |                  |
| Balance as of December 31, 2011 | \$ 2,847                          | \$ 391 | \$ 98     | \$ 163         | \$ 652         | \$ 715     | \$ 36                | \$ 4,250        | \$ 66                                | \$ 4,316         |
| Provision for credit losses     | 459                               | 147    | 19        | 8              | 174            | (63)       | 9                    | 579             | (6)                                  | 573              |
| Charge-offs                     | (955)                             | (140)  | (24)      | (20)           | (184)          | (36)       | (11)                 | (1,186)         | 0                                    | (1,186)          |
| Recoveries                      | 309                               | 61     | 9         | 6              | 76             | 20         | 1                    | 406             | 0                                    | 406              |
| Net charge-offs                 | (646)                             | (79)   | (15)      | (14)           | (108)          | (16)       | (10)                 | (780)           | 0                                    | (780)            |
| Other changes                   | 11                                | 0      | 0         | 0              | 0              | 0          | 0                    | 11              | 0                                    | 11               |
| Balance as of March 31, 2012    | \$ 2,671                          | \$ 459 | \$ 102    | \$ 157         | \$ 718         | \$ 636     | \$ 35                | \$ 4,060        | \$ 60                                | \$ 4,120         |

<sup>(1)</sup> Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Components of Allowance for Loan and Lease Losses by Impairment Methodology**

The table below presents the components of our allowance for loan and lease losses, by loan category and impairment methodology, and the recorded investment of the related loans as of March 31, 2013 and December 31, 2012:

| (Dollars in millions)   | March 31, 2013   |                  |                    |                 |                  |                  |               |                   |
|---|------------------|------------------|--------------------|-----------------|------------------|------------------|---------------|-------------------|
|   | Credit Card      | Auto             | Consumer Home Loan | Retail Banking  | Total Consumer   | Commercial       | Other         | Total             |
| <b>Allowance for loan and lease losses by impairment methodology:</b> |                  |                  |                    |                 |                  |                  |               |                   |
| Collectively evaluated <sup>(1)</sup>                                 | \$ 3,167         | \$ 510           | \$ 36              | \$ 100          | \$ 646           | \$ 298           | \$ 27         | \$ 4,138          |
| Asset-specific <sup>(2)</sup>   | 327              | 18               | 13                 | 11              | 42               | 41               | 0             | 410               |
| Acquired loans <sup>(3)</sup>   | 0                | 0                | 54                 | 1               | 55               | 3                | 0             | 58                |
| <b>Total allowance for loan and lease losses</b>                      | <b>\$ 3,494</b>  | <b>\$ 528</b>    | <b>\$ 103</b>      | <b>\$ 112</b>   | <b>\$ 743</b>    | <b>\$ 342</b>    | <b>\$ 27</b>  | <b>\$ 4,606</b>   |
| <b>Held-for-investment loans by impairment methodology:</b>           |                  |                  |                    |                 |                  |                  |               |                   |
| Collectively evaluated <sup>(1)</sup>                                 | \$ 77,354        | \$ 27,601        | \$ 7,437           | \$ 3,609        | \$ 38,647        | \$ 38,283        | \$ 134        | \$ 154,418        |
| Asset-specific <sup>(2)</sup>   | 839              | 326              | 168                | 95              | 589              | 544              | 0             | 1,972             |
| Acquired loans <sup>(3)</sup>   | 204              | 13               | 34,326             | 38              | 34,377           | 323              | 39            | 34,943            |
| <b>Total held-for-investment loans</b>                                | <b>\$ 78,397</b> | <b>\$ 27,940</b> | <b>\$ 41,931</b>   | <b>\$ 3,742</b> | <b>\$ 73,613</b> | <b>\$ 39,150</b> | <b>\$ 173</b> | <b>\$ 191,333</b> |
| Allowance as a percentage of period-end held-for-investment loans     | 4.46%            | 1.89%            | 0.25%              | 2.99%           | 1.01%            | 0.87%            | 15.61%        | 2.41%             |

| (Dollars in millions)   | December 31, 2012 |                  |                    |                 |                  |                  |               |                   |
|---|-------------------|------------------|--------------------|-----------------|------------------|------------------|---------------|-------------------|
|   | Credit Card       | Auto             | Consumer Home Loan | Retail Banking  | Total Consumer   | Commercial       | Other         | Total             |
| <b>Allowance for loan and lease losses by impairment methodology:</b> |                   |                  |                    |                 |                  |                  |               |                   |
| Collectively evaluated <sup>(1)</sup>                                 | \$ 3,648          | \$ 466           | \$ 47              | \$ 104          | \$ 617           | \$ 376           | \$ 32         | \$ 4,673          |
| Asset-specific <sup>(2)</sup>   | 331               | 20               | 13                 | 7               | 40               | 54               | 1             | 426               |
| Acquired loans <sup>(3)</sup>   | 0                 | 0                | 53                 | 1               | 54               | 3                | 0             | 57                |
| <b>Total allowance for loan and lease losses</b>                      | <b>\$ 3,979</b>   | <b>\$ 486</b>    | <b>\$ 113</b>      | <b>\$ 112</b>   | <b>\$ 711</b>    | <b>\$ 433</b>    | <b>\$ 33</b>  | <b>\$ 5,156</b>   |
| <b>Held-for-investment loans by impairment methodology:</b>           |                   |                  |                    |                 |                  |                  |               |                   |
| Collectively evaluated <sup>(1)</sup>                                 | \$ 90,594         | \$ 26,778        | \$ 7,552           | \$ 3,774        | \$ 38,104        | \$ 37,923        | \$ 154        | \$ 166,775        |
| Asset-specific <sup>(2)</sup>   | 873               | 328              | 145                | 96              | 569              | 538              | 0             | 1,980             |
| Acquired loans <sup>(3)</sup>   | 288               | 17               | 36,403             | 34              | 36,454           | 359              | 33            | 37,134            |
| <b>Total held-for-investment loans</b>                                | <b>\$ 91,755</b>  | <b>\$ 27,123</b> | <b>\$ 44,100</b>   | <b>\$ 3,904</b> | <b>\$ 75,127</b> | <b>\$ 38,820</b> | <b>\$ 187</b> | <b>\$ 205,889</b> |

|   |       |       |       |       |       |       |        |       |
|---|-------|-------|-------|-------|-------|-------|--------|-------|
| Allowance as a percentage of period-end held-for-investment loans | 4.34% | 1.79% | 0.26% | 2.87% | 0.95% | 1.12% | 17.65% | 2.50% |
|---|-------|-------|-------|-------|-------|-------|--------|-------|

- (1) The component of the allowance for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation. The component of the allowance for commercial loans, which we collectively evaluate for impairment, is based on historical loss experience for loans with similar characteristics and consideration of credit quality supplemented by management judgment and interpretation.
- (2) The asset-specific component of the allowance for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for larger-balance commercial loans is individually calculated for each loan.
- (3) The acquired loans component of the allowance is accounted for based on expected cash flows. See Note 4 Loans for details on these loans.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE 6 VARIABLE INTEREST ENTITIES AND SECURITIZATIONS**

In the normal course of business, we enter into various types of transactions with entities that are considered to be VIEs. Historically, our primary involvement with VIEs has been related to our securitization transactions in which we transferred assets from our balance sheet to securitization trusts. These securitization trusts typically meet the definition of a VIE. We have generally securitized credit card loans, auto loans, home loans and installment loans, which have provided a source of funding for us and enabled us to transfer a certain portion of the economic risk of the loans or debt securities to third parties.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The vast majority of the VIEs in which we are involved have been consolidated in our financial statements.

**Summary of Consolidated and Unconsolidated VIEs**

The table below presents a summary of VIEs, aggregated based on VIEs with similar characteristics, in which we had continuing involvement or held a variable interest as of March 31, 2013 and December 31, 2012. We separately present information for consolidated and unconsolidated VIEs.

For consolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets. The assets of consolidated VIEs primarily consist of cash and loans, which we report on our consolidated balance sheets under restricted cash and restricted loans, respectively, for securitization investors. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs typically do not have recourse to the general credit of our company. The liabilities primarily consist of debt securities issued by the VIEs, which we report under securitized debt obligations. For unconsolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets and our maximum exposure to loss. Our maximum exposure to loss is estimated based on the unlikely event that all of the assets in the VIEs became worthless and we were required to meet our maximum remaining funding obligations.

|   | Consolidated              |                                | March 31, 2013            |                                | Maximum Exposure to Loss <sup>(4)</sup> |
|---|---------------------------|--------------------------------|---------------------------|--------------------------------|---|
|   | Carrying Amount of Assets | Carrying Amount of Liabilities | Carrying Amount of Assets | Carrying Amount of Liabilities |   |
| <b>(Dollars in millions)</b>                                      |                           |                                |                           |                                |   |
| <b>Securitization-related VIEs:</b>                               |                           |                                |                           |                                |   |
| Credit card loan securitizations <sup>(1)</sup>                   | \$ 41,629                 | \$ 12,756                      | \$ 0                      | \$ 0                           | \$ 0                                    |
| Home loan securitizations <sup>(2) (3)</sup>                      | 38                        | 34                             | 201                       | 17                             | 225                                     |
| Other asset securitizations <sup>(1)</sup>                        | 0                         | 0                              | 0                         | 0                              | 0                                       |
| <b>Total securitization-related VIEs</b>                          | <b>41,667</b>             | <b>12,790</b>                  | <b>201</b>                | <b>17</b>                      | <b>225</b>                              |
| <b>Other VIEs:</b>  |                           |                                |                           |                                |   |
| Affordable housing entities                                       | 0                         | 0                              | 2,473                     | 380                            | 2,473                                   |
| Entities that provide capital to low-income and rural communities | 388                       | 97                             | 6                         | 4                              | 6                                       |
| Other   | 1                         | 0                              | 110                       | 0                              | 110                                     |



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|                  |                  |                  |                 |               |                 |
|------------------|------------------|------------------|-----------------|---------------|-----------------|
| Total other VIEs | <b>389</b>       | <b>97</b>        | <b>2,589</b>    | <b>384</b>    | <b>2,589</b>    |
| Total VIEs       | <b>\$ 42,056</b> | <b>\$ 12,887</b> | <b>\$ 2,790</b> | <b>\$ 401</b> | <b>\$ 2,814</b> |

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**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)   | Consolidated              |                                | December 31, 2012         |                                | Maximum Exposure to Loss <sup>(4)</sup> |
|---|---------------------------|--------------------------------|---------------------------|--------------------------------|---|
|   | Carrying Amount of Assets | Carrying Amount of Liabilities | Carrying Amount of Assets | Carrying Amount of Liabilities |   |
| <b>Securitization-related VIEs:</b>                               |                           |                                |                           |                                |   |
| Credit card loan securitizations <sup>(1)</sup>                   | \$ 44,238                 | \$ 13,488                      | \$ 0                      | \$ 0                           | \$ 0                                    |
| Home loan securitizations <sup>(2) (3)</sup>                      | 41                        | 38                             | 212                       | 17                             | 237                                     |
| Other asset securitizations <sup>(1)</sup>                        | 19                        | 19                             | 0                         | 0                              | 0                                       |
| <b>Total securitization-related VIEs</b>                          | <b>44,298</b>             | <b>13,545</b>                  | <b>212</b>                | <b>17</b>                      | <b>237</b>                              |
| <b>Other VIEs:</b>  |                           |                                |                           |                                |   |
| Affordable housing entities                                       | 0                         | 0                              | 2,390                     | 414                            | 2,390                                   |
| Entities that provide capital to low-income and rural communities | 375                       | 88                             | 6                         | 4                              | 6                                       |
| Other   | 1                         | 0                              | 201                       | 86                             | 201                                     |
| <b>Total other VIEs</b>   | <b>376</b>                | <b>88</b>                      | <b>2,597</b>              | <b>504</b>                     | <b>2,597</b>                            |
| <b>Total VIEs</b>   | <b>\$ 44,674</b>          | <b>\$ 13,633</b>               | <b>\$ 2,809</b>           | <b>\$ 521</b>                  | <b>\$ 2,834</b>                         |

(1) Represents the gross assets and liabilities owned by the VIE, which includes seller's interest and retained and repurchased notes held by other related parties.

(2) The carrying amount of assets of non-consolidated securitization-related VIEs consists of retained interests associated with the securitization of option-adjustable rate mortgage loans (option-arms) and letters of credit related to manufactured housing securitizations. These are reported on our consolidated balance sheets under other assets.

(3) The carrying amount of liabilities of non-consolidated securitization-related VIEs is comprised of obligations on certain swap agreements associated with the securitization of manufactured housing loans.

(4) The maximum exposure to loss represents the amount of loss we would incur in the unlikely event that all of our assets in the VIE become worthless and we were required to meet our maximum remaining funding obligations.

**Securitization-related VIEs**

We historically have securitized credit card loans, auto loans, home loans and installment loans. In a securitization transaction, assets from our balance sheet are transferred to a trust we establish, which typically meets the definition of a VIE. The trust then issues various forms of interests in those assets to investors. We typically receive cash proceeds and/or other interests in the securitization trust for the assets we transfer. If the transfer of the assets to an unconsolidated securitization trust qualifies as a sale, we remove the assets from our consolidated balance sheet and recognize a gain or loss on the transfer. Alternatively, if the transfer does not qualify as a sale but instead is considered a secured borrowing or the transfer of assets is to a consolidated VIE, the assets remain on our consolidated balance sheets and we record an offsetting liability for the proceeds received.

Our continuing involvement in the majority of our securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. We also may be required to repurchase receivables from the trust if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of servicing such receivables. We also may have exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties. See Note 14 Commitments, Contingencies and Guarantees for information related to reserves we have established for our potential mortgage representation and warranty exposure.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The table below presents the securitization-related VIEs in which we had continuing involvement as of March 31, 2013 and December 31, 2012:

| (Dollars in millions)                      | Non-Mortgage |            |                    | Mortgage           | GreenPoint           |
|--|--------------|------------|--------------------|--------------------|----------------------|
|  | Credit Card  | Other Loan | Option Arm         | GreenPoint HELOCs  | Manufactured Housing |
| <b>March 31, 2013:</b>                     |              |            |                    |                    |                      |
| Securities held by third-party investors   | \$ 11,011    | \$ 0       | \$ 2,616           | \$ 147             | \$ 1,086             |
| Receivables in the trust                   | 40,612       | 0          | 2,706              | 140                | 1,093                |
| Cash balance of spread or reserve accounts | 0            | 0          | 8                  | 0                  | 159                  |
| Retained interests                         | Yes          | Yes        | Yes                | Yes                | Yes                  |
| Servicing retained                         | Yes          | Yes        | Yes <sup>(1)</sup> | Yes <sup>(1)</sup> | No <sup>(3)</sup>    |
| Amortization event <sup>(4)</sup>          | No           | No         | No                 | Yes <sup>(2)</sup> | No                   |
| <b>December 31, 2012:</b>                  |              |            |                    |                    |                      |
| Securities held by third-party investors   | \$ 11,347    | \$ 13      | \$ 2,702           | \$ 158             | \$ 1,117             |
| Receivables in the trust                   | 43,811       | 19         | 2,794              | 151                | 1,123                |
| Cash balance of spread or reserve accounts | 0            | 0          | 8                  | 0                  | 164                  |
| Retained interests                         | Yes          | Yes        | Yes                | Yes                | Yes                  |
| Servicing retained                         | Yes          | Yes        | Yes <sup>(1)</sup> | Yes <sup>(1)</sup> | No <sup>(3)</sup>    |
| Amortization event <sup>(4)</sup>          | No           | No         | No                 | Yes <sup>(2)</sup> | No                   |

(1) We continue to service some of the outstanding balance of securitized mortgage receivables.

(2) See the information below regarding our on-going involvement in the GreenPoint Home Equity Line of Credit ( HELOC ) securitizations.

(3) The manufactured housing securitizations are serviced by a third party. For two of the deals, that third party works in the capacity of subservicer with Capital One being the Master Servicer.

(4) Amortization events vary according to each specific trust agreement but generally are triggered by declines in performance or credit metrics such as charge-off rates or delinquency rates below certain predetermined thresholds. Generally, the occurrence of an amortization event changes the sequencing and amount of trust-related cash flows to the benefit of senior noteholders.

**Non-Mortgage Securitizations**

As of March 31, 2013 and December 31, 2012, we were deemed to be the primary beneficiary of all of our non-mortgage securitization trusts. Accordingly, all of these trusts have been consolidated in our financial statements. For additional information on our principal involvement with non-mortgage securitization trusts and the impact of the consolidation of these trusts on our financial statements, see Note 1 Summary of Significant Accounting Policies and Note 6 Variable Interest Entities and Securitizations of our 2012 Form 10-K.

**Mortgage Securitizations****Option-ARM Loans**

We had previously securitized option-ARM mortgage loans by transferring the mortgage loans to securitization trusts that had issued mortgage-backed securities to investors. The outstanding balance of debt securities held by third-party investors related to our mortgage loan securitization trusts was \$2.6 billion and \$2.7 billion as of March 31, 2013 and December 31, 2012, respectively.

We continue to service some of the outstanding balance of securitized mortgage receivables. We also retain rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by the trusts. We generally estimate the fair value of these retained interests based on the estimated



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present value of expected future cash flows from securitized and sold receivables, using our best estimates of the key assumptions which include credit losses, prepayment speeds and discount rates commensurate with the risks involved. We do not consolidate these trusts because we do not have the right to receive benefits that could potentially be significant nor the obligation to absorb losses that could potentially be significant to the trusts.

In connection with the securitization of certain option-ARM loans, a third party is obligated to advance a portion of any negative amortization resulting from monthly payments that are less than the interest accrued for that payment period. We have an agreement in place with the third party that mirrors this advance requirement. The amount advanced is tracked through mortgage-backed securities retained as part of the securitization transaction. As the borrowers make principal payments, these securities receive their net pro rata portion of those payments in cash and advances of negative amortization are refunded accordingly. As advances occur, we record an asset in the form of negative amortization bonds, which are held at fair value in other assets on our consolidated balance sheets. We have also entered into certain derivative contracts related to the securitization activities. These are classified as free standing derivatives, with fair value adjustments recorded in non-interest income. See Note 9 Derivative Instruments and Hedging Activities for further details on these derivatives.

*GreenPoint Mortgage HELOCs*

Our discontinued wholesale mortgage banking unit, GreenPoint, previously sold home equity lines of credit in whole loan sales and subsequently acquired residual interests in certain trusts which securitized some of those loans. As the residual interest holder, GreenPoint is required to fund advances on the home equity lines of credit when certain performance triggers are met due to deterioration in asset performance. As of March 31, 2013 we funded \$29 million in advances, which are generally expensed as funded. We also have unfunded commitments of \$8 million related to those interests for both our consolidated and non-consolidated VIEs as of March 31, 2013.

*GreenPoint Mortgage Manufactured Housing*

We retain the primary obligation for certain provisions of corporate guarantees, recourse sales and clean-up calls related to the discontinued manufactured housing operations of GreenPoint Credit LLC (GPC), which was sold to a third party in 2004. Although we are the primary obligor, recourse obligations related to former GPC whole loan sales, commitments to exercise mandatory clean-up calls on certain GPC securitization transactions and servicing were transferred to a third party in the sale transaction. We do not consolidate the trusts used for the securitization of manufactured housing loans because we do not have the power to direct the activities that most significantly impact the economic performance of the trusts since we no longer service the loans.

We were required to fund letters of credit in 2004 to cover losses and are obligated to fund future amounts under swap agreements for certain transactions. We have the right to receive any funds remaining in the letters of credit after the securities are released. The amount available under the letters of credit was \$159 million and \$164 million as of March 31, 2013 and December 31, 2012, respectively. The fair value of the expected residual balances on the funded letters of credit was \$38 million and \$50 million as of March 31, 2013 and December 31, 2012, respectively, and is included in other assets on the consolidated balance sheets.

The unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was \$1.1 billion as of March 31, 2013 and December 31, 2012. In the event the third party servicer does not fulfill on its option to exercise the clean-up calls on certain transactions, the option reverts to us and we would assume approximately \$420 million of loans receivable upon our execution of the clean-up call with the requirement to absorb any losses on the loans receivable.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

We monitor the underlying assets for trends in delinquencies and related losses and review the purchaser's financial strength as well as servicing performance. These factors are considered in assessing the adequacy of the liabilities established for these obligations and the valuations of the assets.

**Other VIEs**

***Affordable Housing Entities***

As part of our community reinvestment initiatives, we invest in private investment funds that make equity investments in multi-family affordable housing properties. We receive affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt. For those investment funds considered to be VIEs, we are not required to consolidate them if we do not have the power to direct the activities that most significantly impact the economic performance of those entities. We record our interests in these unconsolidated VIEs in loans held for investment, other assets and other liabilities on our consolidated balance sheets. As of March 31, 2013 and December 31, 2012 our interests consisted of assets of approximately \$2.5 billion and \$2.4 billion, respectively. Our maximum exposure to these entities is limited to our variable interests in the entities and was \$2.5 billion as of March 31, 2013. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support during the period that we were not previously contractually required to provide. The total assets of the unconsolidated investment funds that were VIEs as of March 31, 2013 and December 31, 2012 were approximately \$8.0 billion and \$7.7 billion, respectively.

***Entities that Provide Capital to Low-Income and Rural Communities***

We hold variable interests in entities ( Investor Entities ) that invest in community development entities ( CDEs ) that provide debt financing to businesses and non-profit entities in low-income and rural communities. Variable interests in the CDEs held by the consolidated Investor Entities are also our variable interests. The activities of the Investor Entities are financed with a combination of invested equity capital and debt. The activities of the CDEs are financed solely with invested equity capital. We receive federal and state tax credits for these investments. We consolidate the VIEs in which we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or right to receive benefits that could be potentially significant to the VIE. We have also consolidated other investments and CDEs that we do not consider VIEs. The assets of the VIEs that we consolidated as of March 31, 2013 and as of December 31, 2012 totaled approximately \$388 million and \$375 million, respectively. The assets of the consolidated VIEs are reflected on our consolidated balance sheets in cash, loans held for investment, interest receivable and other assets. The liabilities are reflected in other liabilities.

The total assets of the VIEs that we held an interest in but were not required to consolidate as of March 31, 2013 and December 31, 2012 totaled approximately \$6 million. Our interests in these unconsolidated VIEs are reflected on our consolidated balance sheets in loans held for investment and other assets. Our maximum exposure to these entities is limited to our variable interest of \$6 million as of March 31, 2013. The creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Other**

We have a variable interest in Capital One Financial Advisors, LLC which we consolidate as we have the power to direct the activities that most significantly impact the VIE's economic performance and the obligation to absorb losses or the right to receive benefits that could be potentially significant to the VIE. The assets of the VIE that we consolidated totaled approximately \$1 million as of March 31, 2013 and December 31, 2012. The assets are consolidated in our balance sheet in cash and other assets.

We also have a variable interest in a trust that has a royalty interest in certain oil and gas properties. The activities of the trust are financed solely with debt. The total assets of the trust were \$242 million and \$255 million as of March 31, 2013 and December 31, 2012, respectively. We were not required to consolidate the trust because we do not have the power to direct the activities of the trust that most significantly impact the trust's economic performance. Our retained interest in the trust, which totaled approximately \$109 million and \$114 million as of March 31, 2013 and December 31, 2012, respectively, is reflected on our consolidated balance sheets under loans held for investment. Our maximum exposure is limited to our variable interest of \$109 million as of March 31, 2013. The creditors of the trust have no recourse to our general credit. We have not provided additional financial or other support during the period that we were not previously contractually required to provide.

**NOTE 7 GOODWILL AND OTHER INTANGIBLE ASSETS**

The table below displays the components of goodwill and other intangible assets subject to amortization as of March 31, 2013 and December 31, 2012. Goodwill is presented separately on our consolidated balance sheets. Other intangible assets are included in other assets on our consolidated balance sheets.

**Components of Goodwill and Other Intangible Assets**

| (Dollars in millions)   | March 31, 2013       |                          |                    | December 31, 2012    |                          |                    |
|---|----------------------|--------------------------|--------------------|----------------------|--------------------------|--------------------|
|   | Gross Carrying Value | Accumulated Amortization | Net Carrying Value | Gross Carrying Value | Accumulated Amortization | Net Carrying Value |
| <b>Unamortized intangible assets:</b>                         |                      |                          |                    |                      |                          |                    |
| Goodwill  | \$ 13,900            | \$ NA                    | \$ 13,900          | \$ 13,904            | \$ NA                    | \$ 13,904          |
| <b>Amortized intangible assets:</b>                           |                      |                          |                    |                      |                          |                    |
| Purchased credit card relationship intangibles <sup>(1)</sup> | 2,126                | (467)                    | 1,659              | 2,242                | (378)                    | 1,864              |
| Core deposit intangibles                                      | 1,771                | (1,320)                  | 451                | 1,771                | (1,275)                  | 496                |
| Other <sup>(2)</sup>  | 336                  | (142)                    | 194                | 354                  | (143)                    | 211                |
| <b>Total amortized intangible assets</b>                      | <b>\$ 4,233</b>      | <b>\$ (1,929)</b>        | <b>\$ 2,304</b>    | <b>\$ 4,367</b>      | <b>\$ (1,796)</b>        | <b>\$ 2,571</b>    |



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(1) Includes purchased credit card relationship intangibles attributable to the 2012 U.S. card acquisition with a net carrying value of \$1.6 billion and \$1.8 billion as of March 31, 2013 and December 31, 2012, respectively. During the first quarter of 2013, purchased credit card relationship intangibles with a net carrying value of \$89 million related to the Best Buy loan portfolio were reclassified as held for sale.

(2) Consists of brokerage relations intangibles, partnership and other contract intangibles, trade mark/name intangibles and other intangibles.

Amortization expense for amortized intangible assets, which is presented separately on our consolidated statements of income, totaled \$177 million and \$62 million for the three months ended March 31, 2013 and 2012, respectively.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Goodwill Attributable to Business Segments**

The following table presents goodwill attributable to each of our business segments as of March 31, 2013 and December 31, 2012.

| (Dollars in millions)           | Credit<br>Card  | Consumer<br>Banking | Commercial<br>Banking | Total            |
|---------------------------------|-----------------|---------------------|-----------------------|------------------|
| Balance as of December 31, 2012 | \$ 5,003        | \$ 4,583            | \$ 4,318              | \$ 13,904        |
| Acquisitions                    | 0               | 3                   | 0                     | 3                |
| Other adjustments               | (7)             | 0                   | 0                     | (7)              |
| Balance as of March 31, 2013    | <b>\$ 4,996</b> | <b>\$ 4,586</b>     | <b>\$ 4,318</b>       | <b>\$ 13,900</b> |

**NOTE 8 DEPOSITS AND BORROWINGS****Customer Deposits**

Our customer deposits, which are our largest source of funding for our operations and asset growth, consist of non-interest bearing and interest-bearing deposits, including demand deposits, money market deposits, negotiable order of withdrawal ( NOW ) accounts, savings accounts and certificates of deposit.

As of March 31, 2013, we had \$191.1 billion in interest-bearing deposits, of which \$4.3 billion represented large denomination certificates of \$100,000 or more. As of December 31, 2012, we had \$190.0 billion in interest-bearing deposits, of which \$4.5 billion represents large denomination certificates of \$100,000 or more.

**Securitized Debt Obligations**

As of March 31, 2013, we had \$11.0 billion of securitized debt obligations outstanding, including \$17 million in fair value hedging losses. As of December 31, 2012 we had \$11.4 billion of securitized debt obligations outstanding, including \$22 million in fair value hedging losses. The decrease primarily reflected planned reductions of the long-term debt within our credit card securitization as maturities outpaced our first credit card securitization transaction since 2009, in which we issued \$750 million of 3-year, AAA-rated fixed-rate notes from our credit card securitization trust.

**Other Debt**

We filed a new shelf registration statement with the U.S. Securities & Exchange Commission ( SEC ) on April 30, 2012, which will expire three years from the filing date, under which, from time to time, we may offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell, subject to market conditions.

*Senior and Subordinated Notes*

As of March 31, 2013, we had \$13.3 billion of senior and subordinated notes outstanding, net of a fair value hedging loss of \$576 million. As of December 31, 2012, we had \$12.7 billion of senior and subordinated notes outstanding, net of a fair value hedging loss of \$857 million. During the first quarter of 2013, we issued \$850 million of long-term senior unsecured debt. The offering of senior notes included \$250 million of floating-rate debt due 2016 and \$600 million of fixed-debt rate due 2018.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

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

See Note 9 Derivative Instruments and Hedging Activities for information about our fair value hedging activities.

**Junior Subordinated Debentures**

In the first quarter of 2013, in connection with our redemption of our trust preferred securities, we redeemed our junior subordinated debt with an aggregate carrying value of \$3.65 billion, resulting in a \$65 million loss on extinguishment of debt.

**FHLB Advances**

In addition to issuance capacity under the shelf registration statement, we have access to other borrowing programs, including advances from the FHLB. Our FHLB membership is secured by our investment in FHLB stock which totaled \$819 million and \$1.3 billion as of March 31, 2013 and December 31, 2012, respectively, and is included in other assets on our consolidated balance sheets.

We had outstanding FHLB advances, which were secured by our investment securities, residential home loans, multifamily loans, commercial real-estate loans and home equity lines of credit, totaling \$12.3 billion and \$20.9 billion as of March 31, 2013 and December 31, 2012, respectively.

**Composition of Customer Deposits, Short-term Borrowings and Long-term Debt**

The table below summarizes the components of our deposits, short-term borrowings and long-term debt as of March 31, 2013 and December 31, 2012. Our total short-term borrowings consist of federal funds purchased and securities loaned and sold under agreements to repurchase and other short-term borrowings with an original contractual maturity of one year or less. Our long-term debt consists of borrowings with an original contractual maturity of greater than one year. The amounts presented for outstanding borrowings include unamortized debt premiums and discounts, net of fair value hedge accounting adjustments.

| (Dollars in millions)  | March 31,<br>2013 | December 31,<br>2012 |
|--|-------------------|----------------------|
| <b>Deposits:</b>   |                   |                      |
| Non-interest bearing deposits  | \$ 21,317         | \$ 22,467            |
| Interest-bearing deposits  | 191,093           | 190,018              |
| Total deposits   | \$ 212,410        | \$ 212,485           |
| <b>Short-term borrowings:</b>  |                   |                      |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | \$ 855            | \$ 1,248             |
| FHLB advances  | 11,301            | 19,900               |
| Total short-term borrowings  | \$ 12,156         | \$ 21,148            |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)                          | Maturity Date | March 31, 2013 |                                | December 31, 2012 |           |
|--|---------------|----------------|--------------------------------|-------------------|-----------|
|  |               | Interest Rate  | Weighted Average Interest Rate |                   |           |
| <b>Long-term debt:</b>                         |               |                |                                |                   |           |
| Securitized debt obligations                   | 2013 - 2030   | 0.24% - 6.40%  | 1.76%                          | \$ 11,046         | \$ 11,398 |
| Senior and subordinated notes:                 |               |                |                                |                   |           |
| Fixed unsecured senior debt                    | 2013 - 2021   | 1.00% - 7.38%  | 4.19%                          | 9,175             | 8,623     |
| Floating unsecured senior debt                 | 2014 - 2016   | 0.73% - 1.45%  | 1.04%                          | 750               | 500       |
| Total unsecured senior debt                    |               |                | 3.94%                          | 9,925             | 9,123     |
| Fixed unsecured subordinated debt              | 2013 - 2023   | 3.38% - 8.80%  | 5.21%                          | 3,330             | 3,563     |
| Total senior and subordinated notes            |               |                |                                | 13,255            | 12,686    |
| Other long-term borrowings:                    |               |                |                                |                   |           |
| Fixed junior subordinated debt                 | N/A           | N/A            | N/A                            | 0                 | 3,641     |
| FHLB advances                                  | 2013 - 2023   | 0.36% - 6.88%  | 0.85%                          | 1,035             | 1,037     |
| Total other long-term borrowings               |               |                |                                | 1,035             | 4,678     |
| Total long-term debt                           |               |                |                                | \$ 25,336         | \$ 28,762 |
| Total short-term borrowings and long-term debt |               |                |                                | \$ 37,492         | \$ 49,910 |

**Components of Interest Expense**

The following table displays interest expense attributable to short-term borrowings and long-term debt for the three months ended March 31, 2013 and 2012:

| (Dollars in millions)  | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2013     | March 31, 2012 |
| <b>Short-term borrowings:</b>  |                    |                |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | \$ 0               | \$ 1           |
| FHLB advances  | 11                 | 1              |
| Total short-term borrowings  | 11                 | 2              |
| <b>Long-term debt:</b>   |                    |                |
| Securitized debt obligations   | 56                 | 80             |
| Senior and subordinated notes:   |                    |                |
| Unsecured senior debt  | 56                 | 58             |
| Unsecured subordinated debt  | 26                 | 30             |
| Total senior and subordinated notes  | 82                 | 88             |

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|  |        |        |
|--|--------|--------|
| Other long-term borrowings:                    |        |        |
| Junior subordinated debt                       | 1      | 79     |
| FHLB advances                                  | 2      | 3      |
| Other  | 3      | 2      |
| Total long-term debt                           | 144    | 252    |
| Total short-term borrowings and long-term debt | \$ 155 | \$ 254 |

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**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****NOTE 9 DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES****Use of Derivatives**

We manage our asset/liability position and market risk exposure in accordance with prescribed risk management policies and limits established by our Asset Liability Management Committee and approved by our Board of Directors. Our primary market risk stems from the impact on our earnings and economic value of equity from changes in interest rates, and to a lesser extent, changes in foreign exchange rates. We manage our interest rate sensitivity through several approaches, which include, but are not limited to, changing the maturity and re-pricing characteristics of various balance sheet categories and by entering into interest rate derivatives. Derivatives are also utilized to manage our exposure to changes in foreign exchange rates. Derivative instruments may be privately negotiated contracts, which are often referred to as over-the-counter ( OTC ) derivatives, or they may be listed and traded on an exchange. We execute our derivative contracts in both the OTC and exchange-traded derivative markets. In addition to interest rate swaps, we use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign currency risk. On a regular basis, we enter into customer-accommodation derivative transactions. We engage in these transactions as a service to our commercial banking customers to facilitate their risk management objectives. We typically offset the market risk exposure to our customer-accommodation derivatives through derivative transactions with other counterparties.

**Accounting for Derivatives**

We account for derivatives pursuant to the accounting standards for derivatives and hedging activities. The outstanding notional amount of our derivative contracts totaled \$59.6 billion as of March 31, 2013, compared with \$57.8 billion as of December 31, 2012. The notional amount provides an indication of the volume of our derivatives activity and is used as the basis on which interest and other payments are determined; however, it is generally not the amount exchanged. Derivatives are recorded at fair value in our consolidated balance sheets. The fair value of a derivative represents our estimate of the amount at which a derivative could be exchanged in an orderly transaction between market participants. We report derivatives in a gain position, or derivative assets, in our consolidated balance sheets as a component of other assets. We report derivatives in a loss position, or derivative liabilities, in our consolidated balance sheets as a component of other liabilities. We report derivative asset and liability amounts on a gross basis based on individual contracts, which does not take into consideration the effects of master netting agreements or collateral netting. The fair value of derivative assets and derivative liabilities reported in our consolidated balance sheets was \$1.6 billion and \$370 million, respectively, as of March 31, 2013, compared with \$1.8 billion and \$400 million, respectively, as of December 31, 2012.

Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives consist of customer-accommodation derivatives and economic hedges that we enter into for risk management purposes that are not linked to specific assets or liabilities or to forecasted transactions and, therefore, do not qualify for hedge accounting. Qualifying accounting hedges are designated as fair value hedges, cash flow hedges or net investment hedges.

**Fair Value Hedges:** We designate derivatives as fair value hedges to manage our exposure to changes in the fair value of certain financial assets and liabilities, which fluctuate in value as a result of movements in interest rates. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any resulting ineffectiveness. Our fair value hedges consist of interest rate swaps that are intended to modify our exposure

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**CAPITAL ONE FINANCIAL CORPORATION**

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

to interest rate risk on various fixed rate senior notes, subordinated notes, securitization debt, and brokered certificates of deposits. These hedges have maturities through 2023 and have the effect of converting some of our fixed rate debt and deposits to variable rate.

**Cash Flow Hedges:** We designate derivatives as cash flow hedges to manage our exposure to variability in cash flows related to forecasted transactions. Changes in the fair value of derivatives designated as cash flow hedges are recorded as a component of AOCI, to the extent that the hedge relationships are effective, and amounts are reclassified from AOCI to earnings as the forecasted transactions occur. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings. Our cash flow hedges consist of interest rate swaps that are intended to hedge the variability in interest payments on some of our variable rate assets through 2018. These hedges have the effect of converting some of our variable rate assets to a fixed rate. We also have entered into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency denominated intercompany borrowings.

**Free-Standing Derivatives:** We use free-standing derivatives, to hedge the risk of changes in the fair value of residential mortgage servicing rights ( MSR ), mortgage loan origination and purchase commitments and other interests held. We also categorize our customer-accommodation derivatives and the related offsetting contracts as free-standing derivatives. Changes in the fair value of free-standing derivatives are recorded in earnings as a component of other non-interest income.

**Balance Sheet Presentation**

The following table summarizes the fair value and related outstanding notional amounts of derivative instruments reported in our consolidated balance sheets as of March 31, 2013 and December 31, 2012. The fair value amounts are segregated by derivatives that are designated as accounting hedges and those that are not, and are further segregated by type of contract within those two categories.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)  | Notional<br>or<br>Contractual<br>Amount | March 31, 2013            |               | Notional<br>or<br>Contractual<br>Amount | December 31, 2012         |               |
|--|---|---------------------------|---------------|---|---------------------------|---------------|
|  |   | Derivatives at Fair Value |               |   | Derivatives at Fair Value |               |
|  |   | Assets                    | Liabilities   |   | Assets                    | Liabilities   |
| <b>Derivatives designated as accounting hedges:</b>          |   |                           |               |   |                           |               |
| Interest rate contracts:                                     |   |                           |               |   |                           |               |
| Fair value interest rate contracts                           | \$ 17,081                               | \$ 717                    | \$ 0          | \$ 15,902                               | \$ 1,020                  | \$ 0          |
| Cash flow interest rate contracts                            | 13,025                                  | 98                        | 19            | 13,025                                  | 116                       | 14            |
| <b>Total interest rate contracts</b>                         | <b>30,106</b>                           | <b>815</b>                | <b>19</b>     | <b>28,927</b>                           | <b>1,136</b>              | <b>14</b>     |
| Foreign exchange contracts:                                  |   |                           |               |   |                           |               |
| Cash flow foreign exchange contracts                         | 4,844                                   | 102                       | 7             | 5,212                                   | 18                        | 40            |
| <b>Total foreign exchange contracts</b>                      | <b>4,844</b>                            | <b>102</b>                | <b>7</b>      | <b>5,212</b>                            | <b>18</b>                 | <b>40</b>     |
| <b>Total derivatives designated as accounting hedges</b>     | <b>34,950</b>                           | <b>917</b>                | <b>26</b>     | <b>34,139</b>                           | <b>1,154</b>              | <b>54</b>     |
| <b>Derivatives not designated as accounting hedges:</b>      |   |                           |               |   |                           |               |
| Interest rate contracts covering:                            |   |                           |               |   |                           |               |
| MSRs   | 150                                     | 11                        | 0             | 147                                     | 12                        | 2             |
| Customer accommodation                                       | 19,943                                  | 444                       | 244           | 18,900                                  | 479                       | 273           |
| Other interest rate exposures                                | 2,345                                   | 41                        | 20            | 2,553                                   | 45                        | 22            |
| <b>Total interest rate contracts</b>                         | <b>22,438</b>                           | <b>496</b>                | <b>264</b>    | <b>21,600</b>                           | <b>536</b>                | <b>297</b>    |
| Foreign exchange contracts                                   | 1,322                                   | 172                       | 68            | 1,372                                   | 158                       | 46            |
| Other contracts  | 850                                     | 0                         | 12            | 701                                     | 0                         | 3             |
| <b>Total derivatives not designated as accounting hedges</b> | <b>24,610</b>                           | <b>668</b>                | <b>344</b>    | <b>23,673</b>                           | <b>694</b>                | <b>346</b>    |
| <b>Total derivatives</b>                                     | <b>\$ 59,560</b>                        | <b>\$ 1,585</b>           | <b>\$ 370</b> | <b>\$ 57,812</b>                        | <b>\$ 1,848</b>           | <b>\$ 400</b> |

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## CAPITAL ONE FINANCIAL CORPORATION

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

We present the derivative assets and liabilities and repurchase agreements as gross amounts in our consolidated balance sheet. The following tables summarize gross and net information about our derivative transactions and repurchase agreements subject to legally enforceable master netting agreements and the corresponding collateral received or pledged.

| (Dollars in millions)       | Gross<br>Amounts of<br>Recognized<br>Assets | Gross<br>Amounts<br>Offset in the<br>Statement of<br>Financial<br>Position | Net Amounts of<br>Assets Presented<br>in the<br>Statement<br>of Financial<br>Position | Gross Amounts Not Offset in<br>the Statement of<br>Financial<br>Position |                         | Net<br>Amount         |
|-----------------------------|---|--|---|--|-------------------------|-----------------------|
|                             |   |  |   | Financial<br>Instruments   | Collateral<br>Received  |                       |
| <b>As of March 31, 2013</b> |   |  |   |  |                         |                       |
| Derivatives                 | \$ 1,585                                    | \$ 0   | \$ 1,585  | \$ (173)   | \$ (956) <sup>(1)</sup> | \$ 456 <sup>(2)</sup> |
| Total                       | \$ 1,585                                    | \$ 0   | \$ 1,585  | \$ (173)   | \$ (956)                | \$ 456                |

| (Dollars in millions)                                       | Gross<br>Amounts of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Statement of<br>Financial<br>Position | Net Amounts of<br>Liabilities<br>Presented in the<br>Statement of<br>Financial<br>Position | Gross Amounts Not Offset in<br>the Statement of<br>Financial<br>Position |                        | Net<br>Amount |
|---|--|--|--|--|------------------------|---------------|
|   |  |  |  | Financial<br>Instruments   | Collateral<br>Pledged  |               |
| <b>As of March 31, 2013</b>                                 |  |  |  |  |                        |               |
| Derivatives   | \$ 370   | \$ 0   | \$ 370   | \$ (173)   | \$ (93) <sup>(1)</sup> | \$ 104        |
| Repurchase, securities lending, and similar<br>arrangements | 726  | 0  | 726  | 0  | (726)                  | 0             |
| Total   | \$ 1,096   | \$ 0   | \$ 1,096   | \$ (173)   | \$ (819)               | \$ 104        |

| (Dollars in millions) | Gross<br>Amounts of<br>Recognized<br>Assets | Gross<br>Amounts<br>Offset in the<br>Statement of<br>Financial<br>Position | Net Amounts of<br>Assets Presented<br>in the<br>Statement<br>of Financial<br>Position | Gross Amounts Not Offset in<br>the Statement of<br>Financial<br>Position |                        | Net<br>Amount |
|-----------------------|---|--|---|--|------------------------|---------------|
|                       |   |  |   | Financial<br>Instruments   | Collateral<br>Received |               |
|                       |   |  |   |  |                        |               |

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| <b>As of December 31, 2012</b> |                 |             |                 |                 |                           |                       |
|--------------------------------|-----------------|-------------|-----------------|-----------------|---------------------------|-----------------------|
| Derivatives                    | \$ 1,848        | \$ 0        | \$ 1,848        | \$ (220)        | \$ (1,160) <sup>(1)</sup> | \$ 468 <sup>(2)</sup> |
| <b>Total</b>                   | <b>\$ 1,848</b> | <b>\$ 0</b> | <b>\$ 1,848</b> | <b>\$ (220)</b> | <b>\$ (1,160)</b>         | <b>\$ 468</b>         |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)                                       | Gross<br>Amounts of<br>Recognized<br>Liabilities | Gross<br>Amounts<br>Offset in the<br>Statement of<br>Financial<br>Position | Net Amounts of<br>Liabilities<br>Presented in the<br>Statement of<br>Financial<br>Position | Gross Amounts Not<br>Offset in the Statement<br>of Financial Position |                        | Net<br>Amount |
|---|--|--|--|---|------------------------|---------------|
|   |  |  |  | Financial<br>Instruments  | Collateral<br>Pledged  |               |
| <b>As of December 31, 2012</b>                              |  |  |  |   |                        |               |
| Derivatives   | \$ 400 <sup>(1)</sup>                            | \$ 0   | \$ 400   | \$ (220)  | \$ (98) <sup>(1)</sup> | \$ 82         |
| Repurchase, securities lending, and similar<br>arrangements | 1,235  | 0  | 1,235  | 0   | (1,235)                | 0             |
| Total   | \$ 1,635   | \$ 0   | \$ 1,635   | \$ (220)  | \$ (1,333)             | \$ 82         |

(1) When we receive or pledge collateral, we factor in accrued interest when calculating net positions with counterparties.

(2) The majority of the net asset position relates to customer swaps. Customer swaps are cross-collateralized by the associated commercial loans and we do not require additional collateral on these transactions.

Under our existing enforceable master netting arrangements, we have the right to offset contracts with the same counterparty. Under these arrangements, either counterparty can request the net settlement of all contracts through a single payment upon default on or termination of any one contract.

**Income Statement Presentation and AOCI**

The following tables summarize the impact of derivatives and the related hedged items on our consolidated statements of income and AOCI.

**Fair Value Hedges and Free-Standing Derivatives**

The net gains (losses) recognized in earnings related to derivatives in fair value hedging relationships and free-standing derivatives are presented below for the three months ended March 31, 2013 and 2012:

| (Dollars in millions)   | Three Months Ended March 31, |         |
|---|------------------------------|---------|
|   | 2013                         | 2012    |
| <b>Derivatives designated as accounting hedges<sup>(1)</sup>:</b>     |                              |         |
| Fair value interest rate contracts:                                   |                              |         |
| Gain (loss) recognized in earnings on derivatives                     | \$ (95)                      | \$ (68) |
| Gain (loss) recognized in earnings on hedged items                    | 90                           | 59      |
| Net fair value hedge ineffectiveness gain (loss)                      | (5)                          | (9)     |
| <b>Derivatives not designated as accounting hedges<sup>(1)</sup>:</b> |                              |         |
| Interest rate contracts covering:                                     |                              |         |
| MSRs  | 0                            | (2)     |
| Customer accommodation  | 9                            | 11      |
| Other interest rate exposures   | (1)                          | (81)    |

|  |                |         |
|--|----------------|---------|
| Total  | <b>8</b>       | (72)    |
| Foreign exchange contracts   | (2)            | (13)    |
| Other contracts <sup>(1)</sup>                                       | <b>(11)</b>    | (1)     |
| Total gain (loss) on derivatives not designated as accounting hedges | <b>(5)</b>     | (86)    |
| Net derivatives gain (loss) recognized in earnings                   | <b>\$ (10)</b> | \$ (95) |

(1) Amounts are recorded in our consolidated statements of income in other non-interest income.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Cash Flow Hedges**

The table below shows the net gains (losses) related to derivatives designated as cash flow hedges for the three months ended March 31, 2013 and 2012:

| (Dollars in millions)                                      | Three Months Ended |                |
|--|--------------------|----------------|
|  | March 31, 2013     | March 31, 2012 |
| <b>Gain (loss) recorded in AOCI:<sup>(1)</sup></b>         |                    |                |
| <b>Cash flow hedges:</b>                                   |                    |                |
| Interest rate contracts                                    | \$ (1)             | \$ 6           |
| Foreign exchange contracts                                 | (5)                | (6)            |
| Subtotal   | (6)                | 0              |
| Net derivatives gain (loss) recognized in AOCI             | \$ (6)             | \$ 0           |
| <b>Gain (loss) recorded in earnings:</b>                   |                    |                |
| <b>Cash flow hedges:</b>                                   |                    |                |
| Gain (loss) reclassified from AOCI into earnings:          |                    |                |
| Interest rate contracts <sup>(2)</sup>                     | \$ 12              | \$ 9           |
| Foreign exchange contracts <sup>(3)</sup>                  | (5)                | (6)            |
| Subtotal   | 7                  | 3              |
| Gain (loss) recognized in earnings due to ineffectiveness: |                    |                |
| Interest rate contracts <sup>(3)</sup>                     | 0                  | 0              |
| Foreign exchange contracts <sup>(3)</sup>                  | 0                  | 0              |
| Subtotal   | 0                  | 0              |
| Net derivatives gain (loss) recognized in earnings         | \$ 7               | \$ 3           |

(1) Amounts represent the effective portion.

(2) Amounts reclassified are recorded in our consolidated statements of income in interest income or interest expense.

(3) Amounts reclassified are recorded in our consolidated statements of income in other non-interest income.

We expect to reclassify net after-tax gains of \$67.4 million recorded in AOCI as of March 31, 2013, related to derivatives designated as cash flow hedges to earnings over the next 12 months, which we expect to offset against the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was five years as of March 31, 2013. The amount we expect to reclassify into earnings may change as a result of changes in market conditions and ongoing actions taken as part of our overall risk management strategy.

**Credit Risk-Related Contingency Features**

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Certain of our derivative contracts include provisions requiring that our debt maintain a credit rating of investment grade or above by each of the major credit rating agencies. In the event of a downgrade of our debt credit rating below investment grade, some of our derivative counterparties would have the right to terminate the derivative contract and close-out the existing positions. Other derivative contracts include provisions that would, in the event of a downgrade of our debt credit rating below investment grade, allow our derivative counterparties to demand immediate and ongoing full overnight collateralization on derivative instruments in a net liability position. Certain of our derivative contracts may allow, in the event of a downgrade of our debt credit rating of

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

any kind, our derivative counterparties to demand additional collateralization on such derivative instruments in a net liability position. The fair value of derivative instruments with credit-risk-related contingent features in a net liability position was \$10 million and \$7 million as of March 31, 2013 and December 31, 2012, respectively. We were required to post collateral, consisting of a combination of cash and securities, totaling \$101 million and \$109 million as of March 31, 2013 and December 31, 2012, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post additional collateral of \$2 million and \$4 million as of March 31, 2013 and December 31, 2012, respectively.

**Derivative Counterparty Credit Risk**

Derivative instruments contain an element of credit risk that arises from the potential failure of a counterparty to perform according to the contractual terms of the contract. Our exposure to derivative counterparty credit risk, at any point in time, is represented by the fair value of derivatives in a gain position, or derivative assets, assuming no recoveries of underlying collateral. To mitigate the risk of counterparty default, we maintain collateral agreements with certain derivative counterparties. These agreements typically require both parties to maintain collateral in the event the fair values of derivative financial instruments exceed established thresholds. We received cash collateral from derivatives counterparties totaling \$558 million and \$922 million as of March 31, 2013 and December 31, 2012, respectively. We also received securities from derivatives counterparties totaling \$398 million and \$239 million as of March 31, 2013 and December 31, 2012, respectively, which we have the ability to repledge. We posted cash collateral of \$103 million and \$111 million as of March 31, 2013 and December 31, 2012, respectively. The portion of this collateral that related to our derivative transactions was \$93 million and \$98 million as of March 31, 2013 and December 31, 2012, respectively.

We record counterparty credit risk valuation adjustments on our derivative assets to properly reflect the credit quality of the counterparty. We consider collateral and legally enforceable master netting agreements that mitigate our credit exposure to each counterparty in determining the counterparty credit risk valuation adjustment, which may be adjusted in future periods due to changes in the fair value of the derivative contract, collateral and creditworthiness of the counterparty. The cumulative counterparty credit risk valuation adjustment recorded on our consolidated balance sheets as a reduction in the derivative asset balance was \$8 million and \$9 million as of March 31, 2013 and December 31, 2012, respectively. We also adjust the fair value of our derivative liabilities to reflect the impact of our credit quality. We calculate this adjustment by comparing the spreads on our credit default swaps to the discount benchmark curve. The cumulative credit risk valuation adjustment related to our credit quality recorded on our consolidated balance sheets as a reduction in the derivative liability balance was \$1 million as of March 31, 2013 and December 31, 2012, respectively.

**NOTE 10 STOCKHOLDERS EQUITY**

The following table presents the components of accumulated other comprehensive income as of March 31, 2013 and December 31, 2012, as well as the current period activity related to our other comprehensive income. AOCI is presented net of deferred tax of \$358 million and \$443 million, as of March 31, 2013 and December 31, 2012, respectively.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Change in AOCI Gain (Loss) by Component (Net of Tax)**

| (Dollars in millions)                                      | Three Months Ended March 31, 2013   |  |   |   |         |        |
|--|---|--|---|---|---------|--------|
|  | Net<br>Unrealized<br>Gains<br>(Losses) on<br>Securities<br>Available<br>for<br>Sale | Other-than-<br>Temporary<br>Impairment | Net<br>Unrealized<br>Gains on<br>Cash<br>Flow<br>Hedges | Foreign<br>Currency<br>Translation<br>Adjustments | Other   | Total  |
| AOCI as of December 31, 2012                               | \$ 708  | \$ (5)                                 | \$ 45   | \$ 32   | \$ (41) | \$ 739 |
| Other comprehensive income/(loss) before reclassifications | (157)   | 28                                     | (6)   | (125)   | 0       | (260)  |
| Amounts reclassified from AOCI                             | (1)   | 0                                      | (7)   | 0   | 2       | (6)    |
| Net current period other comprehensive income (loss)       | (158)   | 28                                     | (13)  | (125)   | 2       | (266)  |
| AOCI as of March 31, 2013                                  | \$ 550  | \$ 23                                  | \$ 32   | \$ (93)   | \$ (39) | \$ 473 |

**Reclassifications Out of AOCI**

| (Dollars in millions)   | Three Months Ended March 31, 2013      |                                     |
|---|--|-------------------------------------|
|   | Amount<br>Reclassified<br>from<br>AOCI | Affected Income Statement Line Item |
| Net unrealized gains (losses) on securities available for sale: |  |                                     |
| Sale of available for sale securities                           | \$ 2                                   | Other - Non-interest income         |
|   | 1                                      | Income tax provision                |
|   | 1                                      | Net income                          |
| Net unrealized gains on cash flow hedges:                       |  |                                     |
| Interest rate contracts   | 20                                     | Other - Non-interest income         |
| Foreign exchange contracts                                      | (8)                                    | Other - Non-interest expense        |
|   | 12                                     |                                     |
|   | 5                                      | Income tax provision                |
|   | 7                                      | Net income                          |
| Other:  |  |                                     |
| Other   | (3)                                    | Salaries and associate benefits     |
|   | (1)                                    | Income tax provision                |
|   | (2)                                    | Net income                          |

Total reclassifications

\$ 6

120

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The table below summarizes other comprehensive income activity and the related tax impact for the three months ended March 31, 2013 and 2012:

| (Dollars in millions)  | Three Months Ended March 31, |                        |              |               |                        |              |
|--|------------------------------|------------------------|--------------|---------------|------------------------|--------------|
|  | 2013                         |                        |              | 2012          |                        |              |
|  | Before<br>Tax                | Provision<br>(Benefit) | After<br>Tax | Before<br>Tax | Provision<br>(Benefit) | After<br>Tax |
| <b>Other comprehensive income:</b>                             |                              |                        |              |               |                        |              |
| Net unrealized gains (losses) on securities available for sale | \$ (254)                     | \$ (96)                | \$ (158)     | \$ (10)       | \$ (4)                 | \$ (6)       |
| Other-than-temporary impairment not recognized in earnings     | 45                           | 17                     | 28           | 54            | 20                     | 34           |
| Net unrealized gains (losses) on cash flow hedges              | (21)                         | (8)                    | (13)         | 1             | 0                      | 1            |
| Foreign currency translation adjustments                       | (125)                        | 0                      | (125)        | 55            | 0                      | 55           |
| Other  | 4                            | 2                      | 2            | 0             | 0                      | 0            |
| Other comprehensive income (loss)                              | \$ (351)                     | \$ (85)                | \$ (266)     | \$ 100        | \$ 16                  | \$ 84        |

**NOTE 11 EARNINGS PER COMMON SHARE**

The following table sets forth the computation of basic and diluted earnings per common share:

| (Dollars and shares in millions, except per share data)                                   | Three Months Ended March 31, |          |
|---|------------------------------|----------|
|   | 2013                         | 2012     |
| <b>Basic earnings per share</b>   |                              |          |
| Income from continuing operations, net of tax   | \$ 1,144                     | \$ 1,505 |
| Loss from discontinued operations, net of tax   | (78)                         | (102)    |
| Net income  | 1,066                        | 1,403    |
| Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup> | (5)                          | (7)      |
| Preferred stock dividends   | (13)                         | 0        |
| Net income available to common stockholders   | \$ 1,048                     | \$ 1,396 |
| Total weighted-average basic shares outstanding   | 581                          | 509      |
| Net income per share  | \$ 1.81                      | \$ 2.74  |

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| (Dollars and shares in millions, except per share data)          | Three Months Ended March 31, |          |
|--|------------------------------|----------|
|  | 2013                         | 2012     |
| <b>Diluted earnings per share<sup>(2)</sup></b>                  |                              |          |
| Net income available to common stockholders                      | \$ 1,048                     | \$ 1,396 |
| Total weighted-average basic shares outstanding                  | 581                          | 509      |
| Stock options, warrants, contingently issuable shares, and other | 5                            | 4        |
| Total weighted-average diluted shares outstanding                | 586                          | 513      |
| Net income per share   | \$ 1.79                      | \$ 2.72  |

(1) Includes undistributed earnings allocated to participating securities using the two-class method under the accounting guidance for computing earnings per share.

(2) Excluded from the computation of diluted earnings per share was 6 million and 9 million of awards, options or warrants, for the three months ended March 31, 2013 and 2012, respectively, because their inclusion would be anti-dilutive.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**NOTE 12 FAIR VALUE OF FINANCIAL INSTRUMENTS**

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

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

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

Level 3: Unobservable inputs

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value into earnings. We have not made any material fair value option elections as of March 31, 2013 and December 31, 2012.

**Level 1, 2 and 3 Valuation Techniques**

Financial instruments are considered Level 1 when the valuation is based on quoted prices in active markets for identical assets or liabilities. Level 2 financial instruments are valued using quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities. Financial instruments are considered Level 3 when their values are determined using pricing models, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable and when the determination of the fair value requires significant management judgment or estimation.

The following table displays our assets and liabilities measured on our condensed consolidated balance sheets at fair value on a recurring basis as of March 31, 2013 and December 31, 2012:

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| (Dollars in millions)  | March 31, 2013                |                  |                 | Total            |
|--|-------------------------------|------------------|-----------------|------------------|
|  | Fair Value Measurements Using |                  |                 |                  |
|  | Level 1                       | Level 2          | Level 3         |                  |
| <b>Assets</b>  |                               |                  |                 |                  |
| Securities available for sale:                                   |                               |                  |                 |                  |
| U.S. Treasury debt obligations                                   | \$ 1,046                      | \$ 0             | \$ 0            | \$ 1,046         |
| U.S. agency debt obligations                                     | 0                             | 301              | 0               | 301              |
| Corporate debt securities guaranteed by U.S. government agencies | 0                             | 360              | 768             | 1,128            |
| Residential mortgage-backed securities                           | 0                             | 43,127           | 1,490           | 44,617           |
| Commercial mortgage-backed securities                            | 0                             | 7,419            | 704             | 8,123            |
| Other asset-backed securities                                    | 0                             | 7,286            | 71              | 7,357            |
| Other  | 139                           | 1,241            | 16              | 1,396            |
| <b>Total securities available for sale</b>                       | <b>1,185</b>                  | <b>59,734</b>    | <b>3,049</b>    | <b>63,968</b>    |
| Other assets:  |                               |                  |                 |                  |
| Mortgage servicing rights  | 0                             | 0                | 58              | 58               |
| Derivative assets <sup>(1)(2)</sup>                              | 0                             | 1,502            | 83              | 1,585            |
| Retained interests in securitizations and other                  | 0                             | 0                | 201             | 201              |
| <b>Total assets</b>  | <b>\$ 1,185</b>               | <b>\$ 61,236</b> | <b>\$ 3,391</b> | <b>\$ 65,812</b> |
| <b>Liabilities</b>   |                               |                  |                 |                  |
| Other liabilities:   |                               |                  |                 |                  |
| Derivative liabilities <sup>(1)(2)</sup>                         | \$ 1                          | \$ 327           | \$ 42           | \$ 370           |
| <b>Total liabilities</b>   | <b>\$ 1</b>                   | <b>\$ 327</b>    | <b>\$ 42</b>    | <b>\$ 370</b>    |

| (Dollars in millions)  | December 31, 2012             |               |              | Total         |
|--|-------------------------------|---------------|--------------|---------------|
|  | Fair Value Measurements Using |               |              |               |
|  | Level 1                       | Level 2       | Level 3      |               |
| <b>Assets</b>  |                               |               |              |               |
| Securities available for sale:                                   |                               |               |              |               |
| U.S. Treasury debt obligations                                   | \$ 1,552                      | \$ 0          | \$ 0         | \$ 1,552      |
| U.S. agency debt obligations                                     | 0                             | 302           | 0            | 302           |
| Corporate debt securities guaranteed by U.S. government agencies | 0                             | 362           | 650          | 1,012         |
| Residential mortgage-backed securities                           | 0                             | 42,538        | 1,335        | 43,873        |
| Commercial mortgage-backed securities                            | 0                             | 7,042         | 587          | 7,629         |
| Other asset-backed securities                                    | 0                             | 8,356         | 102          | 8,458         |
| Other  | 145                           | 993           | 15           | 1,153         |
| <b>Total securities available for sale</b>                       | <b>1,697</b>                  | <b>59,593</b> | <b>2,689</b> | <b>63,979</b> |
| Other assets:  |                               |               |              |               |
| Mortgage servicing rights  | 0                             | 0             | 55           | 55            |
| Derivative assets <sup>(1)(2)</sup>                              | 1                             | 1,757         | 90           | 1,848         |

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|   |                 |                  |                 |                  |
|---|-----------------|------------------|-----------------|------------------|
| Retained interests in securitizations and other | 0               | 0                | 204             | 204              |
| <b>Total assets</b>                             | <b>\$ 1,698</b> | <b>\$ 61,350</b> | <b>\$ 3,038</b> | <b>\$ 66,086</b> |
| <b>Liabilities</b>                              |                 |                  |                 |                  |
| <b>Other liabilities:</b>                       |                 |                  |                 |                  |
| Derivative liabilities <sup>(1)(2)</sup>        | \$ 1            | \$ 361           | \$ 38           | \$ 400           |
| <b>Total liabilities</b>                        | <b>\$ 1</b>     | <b>\$ 361</b>    | <b>\$ 38</b>    | <b>\$ 400</b>    |

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**CAPITAL ONE FINANCIAL CORPORATION**

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

- (1) We do not offset the fair value of derivative contracts in a loss position against the fair value of contracts in a gain position. We also do not offset fair value amounts recognized for derivative instruments and fair value amounts recognized for the right to reclaim cash collateral or the obligation to return cash collateral arising from derivative instruments executed with the same counterparty under a master netting arrangement.
- (2) Does not reflect \$8 million and \$9 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of March 31, 2013 and December 31, 2012, respectively. Non-performance risk is reflected in other assets/liabilities on the balance sheet and offset through the income statement in other income.

The determination of the classification of financial instruments in Level 2 or Level 3 of the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. During the first quarter of 2013, we had minimal movements between Levels 1 and 2.

**Level 3 Instruments Only**

Financial instruments are considered Level 3 when their values are determined using pricing models, which include comparison of prices from multiple sources, discounted cash flow methodologies or similar techniques and at least one significant model assumption or input is unobservable or there is significant variability among pricing sources. Level 3 financial instruments also include those for which the determination of fair value requires significant management judgment or estimation. The tables below present a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3). When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
Three Months Ended March 31, 2013**

|  | <b>Total Gains or<br/>(Losses)<br/>(Realized/Unrealized)</b> |   |   |                  |              |                  |                    |   |   | <b>Net<br/>Unrealized<br/>Gains<br/>(Losses)<br/>Included<br/>in Net<br/>Income<br/>Related<br/>to<br/>Assets<br/>and<br/>Liabilities</b> |  |
|--|--|---|---|------------------|--------------|------------------|--------------------|---|---|---|--|
|  | <b>Balance,<br/>January 1,<br/>2013</b>                      | <b>Included<br/>in<br/>Net<br/>Income<sup>(1)</sup></b> | <b>Included in<br/>Other<br/>Comprehensive<br/>Income</b> | <b>Purchases</b> | <b>Sales</b> | <b>Issuances</b> | <b>Settlements</b> | <b>Transfers<br/>Into<br/>Level<br/>3<sup>(2)</sup></b> | <b>Transfers<br/>Out of<br/>Level<br/>3<sup>(2)</sup></b> | <b>Balance,<br/>March 31,<br/>2013</b>  | <b>Still Held as of<br/>March 31,<br/>2013<sup>(3)</sup></b> |
| <b>(Dollars in millions)</b>                   |  |   |   |                  |              |                  |                    |   |   |   |  |
| <b>Assets:</b>                                 |  |   |   |                  |              |                  |                    |   |   |   |  |
| Securities available-for-sale:                 |  |   |   |                  |              |                  |                    |   |   |   |  |
| Corporate debt securities                      |  |   |   |                  |              |                  |                    |   |   |   |  |
| guaranteed by U.S. government agencies         | \$ 650   | \$ 0  | \$ 1  | \$ 88            | \$ 0         | \$ 0             | \$ (10)            | \$ 39   | \$ 0  | \$ 768  | \$ 0   |
| Residential mortgage-backed securities         | 1,335  | (9)   | 76  | 98               | 0            | 0                | (56)               | 269   | (223)   | 1,490   | (9)  |
| Commercial mortgage-backed securities          | 587  | 0   | (7)   | 381              | 0            | 0                | (19)               | 49  | (287)   | 704   | 0  |
| Other asset-backed securities                  | 102  | (1)   | 9   | 0                | (41)         | 0                | (1)                | 6   | (3)   | 71  | (1)  |
| Other  | 15   | 0   | 0   | 0                | 0            | 0                | 0                  | 1   | 0   | 16  | 0  |
| <b>Total securities available for sale</b>     | <b>2,689</b>   | <b>(10)</b>   | <b>79</b>   | <b>567</b>       | <b>(41)</b>  | <b>0</b>         | <b>(86)</b>        | <b>364</b>  | <b>(513)</b>  | <b>3,049</b>  | <b>(10)</b>  |
| Other assets:                                  |  |   |   |                  |              |                  |                    |   |   |   |  |
| Mortgage servicing rights                      | 55   | 2   | 0   | 0                | 0            | 2                | (1)                | 0   | 0   | 58  | 2  |
| Derivative assets                              | 90   | 0   | 0   | 0                | 0            | 1                | (6)                | 0   | (2)   | 83  | 0  |
| Retained interest in securitizations and other | 204  | (3)   | 0   | 0                | 0            | 0                | 0                  | 0   | 0   | 201   | (3)  |
| <b>Liabilities:</b>                            |  |   |   |                  |              |                  |                    |   |   |   |  |
| Other liabilities:                             |  |   |   |                  |              |                  |                    |   |   |   |  |
| Derivative liabilities                         | 38   | 9   | 0   | 0                | 0            | 0                | (4)                | 0   | (1)   | 42  | 9  |

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
Three Months Ended March 31, 2012**

| (Dollars in millions)                         | Total Gains or (Losses) (Realized/Unrealized) |                              |                               |              |              |           |             | Transfers                   |                               | Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities |  |
|---|---|------------------------------|-------------------------------|--------------|--------------|-----------|-------------|-----------------------------|-------------------------------|--|--|
|   | Balance, January 1, 2012                      | In Net Income <sup>(1)</sup> | In Other Comprehensive Income | Purchases    | Sales        | Issuances | Settlements | Into Level 3 <sup>(2)</sup> | Out of Level 3 <sup>(2)</sup> | Balance, March 31, 2012  | Still Held as of March 31, 2012 <sup>(3)</sup> |
| <b>Assets:</b>                                |   |                              |                               |              |              |           |             |                             |                               |  |  |
| Securities available-for-sale:                |   |                              |                               |              |              |           |             |                             |                               |  |  |
| Residential mortgage-backed securities        | \$ 195  | \$ (10)                      | \$ (26)                       | \$ 2,279     | \$ (640)     | \$ 0      | \$ (16)     | \$ 98                       | \$ (59)                       | \$ 1,821   | \$ (10)  |
| Commercial mortgage-backed securities         | 274   | 4                            | 3                             | 297          | (76)         | 0         | (3)         | 13                          | (125)                         | 387  | 0  |
| Other asset-backed securities                 | 32  | 0                            | 5                             | 105          | 0            | 0         | (2)         | 132                         | (31)                          | 241  | 4  |
| Other   | 12  | 0                            | 0                             | 0            | 0            | 0         | (5)         | 6                           | (6)                           | 7  | 0  |
| <b>Total securities available-for-sale</b>    | <b>513</b>                                    | <b>(6)</b>                   | <b>(18)</b>                   | <b>2,681</b> | <b>(716)</b> | <b>0</b>  | <b>(26)</b> | <b>249</b>                  | <b>(221)</b>                  | <b>2,456</b>   | <b>(6)</b>                                     |
| Other assets:                                 |   |                              |                               |              |              |           |             |                             |                               |  |  |
| Mortgage servicing rights                     | 93  | 1                            | 0                             | 0            | 0            | 4         | (3)         | 0                           | 0                             | 95   | 1  |
| Derivative assets                             | 103   | (3)                          | 0                             | 0            | 0            | 2         | (49)        | 13                          | (1)                           | 65   | (3)  |
| Retained interest in securitization and other | 145   | (5)                          | 0                             | 0            | 0            | 0         | 0           | 0                           | 0                             | 140  | (5)  |
| <b>Liabilities:</b>                           |   |                              |                               |              |              |           |             |                             |                               |  |  |
| Other liabilities                             |   |                              |                               |              |              |           |             |                             |                               |  |  |
| Derivative liabilities                        | 279   | (5)                          | 0                             | 0            | 0            | 32        | (259)       | (8)                         | (3)                           | 36   | (5)  |

(1) Gains (losses) related to Level 3 mortgage servicing rights are reported in other non-interest income, which is a component of non-interest income. Gains (losses) related to Level 3 derivative receivables and derivative payables are reported in other non-interest income, which is a component of non-interest income. Gains (losses) related to Level 3 retained interests in securitizations are reported in servicing and securitizations income, which is a component of non-interest income.

(2) The transfers out of Level 3 for the quarters ended March 31, 2013 and 2012 were primarily driven by greater consistency among multiple pricing sources. The transfers into Level 3 were primarily driven by less consistency among vendor pricing on individual securities.

(3) The amount presented for unrealized gains (loss) for assets still held as of the reporting date primarily represents impairments for available-for-sale securities, accretion on certain fixed maturity securities, change in fair value of derivative instruments and mortgage servicing rights. The impairments are reported in total other-than-temporary losses as a component of non-interest income.

**Significant Level 3 Fair Value Asset and Liability Input Sensitivity**

Changes in unobservable inputs may have a significant impact on fair value. Certain of these unobservable inputs will (in isolation) have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. In general, an increase in the discount rate, default rates, loss severity and credit spreads, in isolation, would result in a decrease in the fair value measurement. In addition, an increase in default rates would generally be accompanied by a decrease in recovery rates, slower prepayment rates and an increase in liquidity spreads.



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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Fair Value Governance and Control**

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

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

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

We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for pricing.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table presents the significant unobservable inputs relied upon to determine the fair values of our recurring Level 3 financial instruments. We utilize multiple third party pricing services to obtain fair value measures for our securities. Several of our third party pricing services are only able to provide unobservable input information for a limited number of securities due to software licensing restrictions. Other third party pricing services are able to provide unobservable input information for all securities for which they provide a valuation. As a result, the unobservable input information for the available-for-sale securities presented below

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

represents a composite summary of all information we are able to obtain for a majority of our securities. The unobservable input information for all other Level 3 financial instruments is based on the assumptions used in our internal valuation models.

| (Dollars in millions)                          | Quantitative Information about Level 3 Fair Value Measurements Significant |   | Quantitative Information about Level 3 Fair Value Measurements Significant |                              | Weighted Average |       |
|--|--|---|--|------------------------------|------------------|-------|
|  | Fair Value at March 31, 2013   | Valuation Techniques                                  | Unobservable Inputs  | Range                        |                  |       |
| <b>Assets:</b>                                 |  |   |  |                              |                  |       |
| Securities available for sale:                 |  |   |  |                              |                  |       |
| Residential mortgage-backed securities         | \$ 1,490   |   | Yield  | 0-25%                        | 5%               |       |
|  |  |   | Constant prepayment rate   | 0-28%                        | 6%               |       |
|  |  |   | Discounted cash flows (3 <sup>rd</sup> party pricing)                      | Default rate                 | 0-22%            | 9%    |
|  |  |   | Loss severity  | 0-75%                        | 51%              |       |
| Commercial mortgage-backed securities          | 704  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Yield  | 1-3%                         | 2%               |       |
|  |  |   | Constant prepayment rate   | 0-6%                         | 1%               |       |
| Other asset-backed securities                  | 71   |   | Yield  | 4-23%                        | 5%               |       |
|  |  |   | Constant prepayment rate   | 0-7%                         | 3%               |       |
|  |  |   | Discounted cash flows (3 <sup>rd</sup> party pricing)                      | Default rate                 | 3-28%            | 14%   |
|  |  |   | Loss severity  | 46-88%                       | 70%              |       |
| U.S. government guaranteed debt and other      | 784  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Yield  | 0-2%                         | 2%               |       |
|  |  |   | Constant prepayment rate   | N/A                          | N/A              |       |
| <b>Other assets:</b>                           |  |   |  |                              |                  |       |
| Mortgage servicing rights                      | 58   |   | Total prepayment rate  | 10.08-32.52%                 | 18.68%           |       |
|  |  |   | Discount rate  | 9.96-21.10%                  | 12.91%           |       |
|  |  |   | Discounted cash flows  | Servicing cost (\$ per loan) | \$82-\$852       | \$295 |
| Derivative assets                              | 83   | Discounted cash flows                                 | Swap rates   | 2.01-2.79%                   | 2.67%            |       |
| Retained interests in securitization and other | 201  | Discounted cash flows                                 | Life of receivables (months)   | 33-87                        | 71               |       |
|  |  |   | Constant prepayment rate   |                              |                  |       |

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|               |              |        |
|---------------|--------------|--------|
| Discount rate | 1.22-15.00%  | 6.02%  |
| Default rate  | 3.56-13.57%  | 13.22% |
| Loss severity | 1.98-9.82%   | 6.42%  |
|               | 18.33-86.34% | 29.26% |

**Liabilities:**

Other liabilities:

|                        |    |                       |            |            |       |
|------------------------|----|-----------------------|------------|------------|-------|
| Derivative liabilities | 42 | Discounted cash flows | Swap rates | 2.01-2.75% | 2.62% |
|------------------------|----|-----------------------|------------|------------|-------|

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)                          | Quantitative Information about Level 3 Fair Value Measurements Significant |   | Unobservable Significant     |              | Weighted Average |
|--|--|---|------------------------------|--------------|------------------|
|  | Fair Value at December 31, 2012  | Valuation Techniques                                  | Inputs                       | Range        |                  |
| <b>Assets:</b>                                 |  |   |                              |              |                  |
| Securities available for sale:                 |  |   |                              |              |                  |
| Residential mortgage-backed securities         | \$ 1,335   |   | Yield                        | 0-24%        | 5%               |
|  |  |   | Constant prepayment rate     | 0-26%        | 6%               |
|  |  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Default rate                 | 0-21%        | 9%               |
|  |  |   | Loss severity                | 4-75%        | 52%              |
| Commercial mortgage-backed securities          | 587  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Yield                        | 1-3%         | 2%               |
|  |  |   | Constant prepayment rate     | 0-15%        | 11%              |
| Other asset-backed securities                  | 102  |   | Yield                        | 1-24%        | 4%               |
|  |  |   | Constant prepayment rate     | 0-5%         | 2%               |
|  |  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Default rate                 | 1-28%        | 15%              |
|  |  |   | Loss severity                | 46-88%       | 72%              |
| U.S. government guaranteed debt and other      | 665  | Discounted cash flows (3 <sup>rd</sup> party pricing) | Yield                        | 1-4%         | 2%               |
|  |  |   | Constant prepayment rate     | N/A          | N/A              |
| <b>Other assets:</b>                           |  |   |                              |              |                  |
| Mortgage servicing rights                      | 55   |   | Constant prepayment rate     | 11.77-32.99% | 19.37%           |
|  |  |   | Discount rate                | 9.95-37.88%  | 12.66%           |
|  |  | Discounted cash flows                                 | Servicing cost (\$ per loan) | \$81-\$864   | \$302            |
| Derivative assets                              | 90   | Discounted cash flows                                 | Swap rates                   | 1.82-2.59%   | 2.46%            |
| Retained interests in securitization and other | 204  |   | Life of receivables (months) | 29-243       | 66               |
|  |  |   | Constant prepayment rate     | 1.25-22.21%  | 13.52%           |
|  |  | Discounted cash flows                                 | Discount rate                | 2.90-13.57%  | 12.70%           |
| <b>Liabilities:</b>                            |  |   |                              |              |                  |
| Other liabilities:                             |  |   |                              |              |                  |

|                        |    |                       |            |            |       |
|------------------------|----|-----------------------|------------|------------|-------|
| Derivative liabilities | 38 | Discounted cash flows | Swap rates | 1.82-2.55% | 2.42% |
|------------------------|----|-----------------------|------------|------------|-------|

**Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis**

We are required to measure and recognize certain other financial assets at fair value on a nonrecurring basis in the consolidated balance sheets. These financial assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, when we evaluate impairment).



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**CAPITAL ONE FINANCIAL CORPORATION**

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

***Loans Held For Sale***

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees and deferred origination costs, or fair value. The fair value of loans held for sale is determined using a discounted cash flow model or the fair value of the underlying collateral, less the estimated cost to sell. Held-for-sale loans that are valued using a discounted cash flow model are classified as level 2. Loans that are valued using fair value less the estimated cost to sell have significant unobservable inputs and are classified as Level 3 under the fair value hierarchy. Fair value adjustments to loans held for sale are recorded in other non-interest expense in our consolidated statements of income.

***Loans Held For Investment, Net***

Loans held for investment that are individually impaired are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. Due to the use of unobservable inputs, loans held for investment are classified as Level 3 under the fair value hierarchy. Fair value adjustments for loans held for investment are recorded in provision for credit losses in the consolidated statement of income.

***Foreclosed Property and Other Repossessed Assets***

Foreclosed property and other repossessed assets are carried at the lower of the carrying amount or fair value less costs to sell. Due to the use of significant unobservable inputs, foreclosed property is classified as Level 3 under the fair value hierarchy. Fair value adjustments for foreclosed property are recorded in other non-interest expense in the consolidated statement of income.

***Other Assets***

Nonrecurring other assets measured at fair value consist of long-lived assets held for sale. These assets are recorded in other assets in our consolidated balance sheets. These assets are carried at the lower of their carrying amount or fair value less costs to sell. Due to the use of unobservable inputs, long-lived assets held for sale are classified as Level 3 under the fair value hierarchy. Fair value adjustments for other assets are recorded in other non-interest expense in the consolidated statement of income.

For assets measured at fair value on a nonrecurring basis and still held on the consolidated balance sheet, the following table provides the fair value measures by level of valuation assumptions used and the gains or losses recognized for these assets as a result of fair value measurements.

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The following table presents the carrying amounts of all assets that were still held as of March 31, 2013 and December 31, 2012, and for which a nonrecurring fair value measurement was recorded during the three and twelve months then ended.

| (Dollars in millions)              | Fair Value Measurements Using |              |               | Assets at Fair Value | March 31, 2013                   |                                 | Range  | Weighted Average |
|------------------------------------|-------------------------------|--------------|---------------|----------------------|----------------------------------|---------------------------------|--------|------------------|
|                                    | Level 1                       | Level 2      | Level 3       |                      | Significant Valuation Techniques | Significant Unobservable Inputs |        |                  |
| <b>Assets</b>                      |                               |              |               |                      |                                  |                                 |        |                  |
| Loans held for sale                | \$ 0                          | \$ 35        | \$ 0          | \$ 35                | N/A                              | N/A                             | N/A    | N/A              |
| Loans held for investment          | 0                             | 0            | 41            | 41                   | Appraisal Value                  | Non-recoverable rate            | 0-16%  | 11%              |
| Foreclosed property <sup>(1)</sup> | 0                             | 0            | 79            | 79                   | Appraisal Value                  | Cost to Sell                    | 10-14% | 10%              |
| Other <sup>(2)</sup>               | 0                             | 0            | 1             | 1                    | Appraisal Value                  | Cost to Sell                    | 6%     | 6%               |
| <b>Total</b>                       | <b>\$ 0</b>                   | <b>\$ 35</b> | <b>\$ 121</b> | <b>\$ 156</b>        |                                  |                                 |        |                  |

| (Dollars in millions)              | Fair Value Measurements Using |               |               | Assets at Fair Value | December 31, 2012                |                                 | Range  | Weighted Average |
|------------------------------------|-------------------------------|---------------|---------------|----------------------|----------------------------------|---------------------------------|--------|------------------|
|                                    | Level 1                       | Level 2       | Level 3       |                      | Significant Valuation Techniques | Significant Unobservable Inputs |        |                  |
| <b>Assets</b>                      |                               |               |               |                      |                                  |                                 |        |                  |
| Loans held for sale                | \$ 0                          | \$ 201        | \$ 0          | \$ 201               | N/A                              | N/A                             | N/A    | N/A              |
| Loans held for investment          | 0                             | 0             | 162           | 162                  | Appraisal Value                  | Non-recoverable rate            | 0-100% | 13%              |
| Foreclosed property <sup>(1)</sup> | 0                             | 0             | 50            | 50                   | Appraisal Value                  | Cost to Sell                    | 10-14% | 11%              |
| Other <sup>(2)</sup>               | 0                             | 0             | 59            | 59                   | Appraisal Value                  | Cost to Sell                    | 6%     | 6%               |
| <b>Total</b>                       | <b>\$ 0</b>                   | <b>\$ 201</b> | <b>\$ 271</b> | <b>\$ 472</b>        |                                  |                                 |        |                  |

The following table presents total nonrecurring fair value measurements for the period, included in earnings, attributable to the change in fair value relating to assets that are still held at March 31, 2013 and 2012.

| (Dollars in millions)              | Total Gains (Losses)              |       |
|------------------------------------|-----------------------------------|-------|
|                                    | Three Months Ended March 31, 2013 | 2012  |
| <b>Assets</b>                      |                                   |       |
| Loans held for sale                | \$ 0                              | \$ 16 |
| Loans held for investment          | (10)                              | (25)  |
| Foreclosed property <sup>(1)</sup> | (2)                               | (8)   |
| Other <sup>(2)</sup>               | 0                                 | (2)   |

|       |  |         |         |
|-------|--|---------|---------|
| Total |  | \$ (12) | \$ (19) |
|-------|--|---------|---------|

- (1) Represents the fair value and related losses of foreclosed properties that were written down subsequent to their initial classification as foreclosed properties.
- (2) Consists of long lived assets classified as held for sale.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Fair Value of Financial Instruments**

The following reflects the fair value of financial instruments, whether or not recognized on the condensed consolidated balance sheets at fair value, as of March 31, 2013 and December 31, 2012:

| (Dollars in millions)  | March 31, 2013  |                      | Fair Value Measurements Using |         |         |
|--|-----------------|----------------------|-------------------------------|---------|---------|
|  | Carrying Amount | Estimated Fair Value | Level 1                       | Level 2 | Level 3 |
| <b>Financial assets</b>  |                 |                      |                               |         |         |
| Cash and cash equivalents  | \$ 6,746        | \$ 6,746             | \$ 6,746                      | \$ 0    | \$ 0    |
| Restricted cash for securitization investors   | 1,018           | 1,018                | 1,018                         | 0       | 0       |
| Securities available for sale  | 63,968          | 63,968               | 1,185                         | 59,734  | 3,049   |
| Loans held for sale  | 6,410           | 6,627                | 0                             | 6,627   | 0       |
| Net loans held for investment  | 186,727         | 191,297              | 0                             | 0       | 191,297 |
| Interest receivable  | 1,378           | 1,378                | 0                             | 1,378   | 0       |
| Derivative assets  | 1,585           | 1,585                | 0                             | 1,502   | 83      |
| Mortgage servicing rights  | 58              | 58                   | 0                             | 0       | 58      |
| <b>Financial liabilities</b>   |                 |                      |                               |         |         |
| Non-interest bearing deposits  | \$ 21,317       | \$ 21,317            | \$ 21,317                     | \$ 0    | \$ 0    |
| Interest-bearing deposits  | 191,093         | 190,864              | 0                             | 20,842  | 170,022 |
| Securitized debt obligations   | 11,046          | 11,216               | 0                             | 10,894  | 322     |
| Senior and subordinated notes  | 13,255          | 13,875               | 0                             | 13,875  | 0       |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 855             | 855                  | 855                           | 0       | 0       |
| Other borrowings   | 12,336          | 12,347               | 0                             | 12,347  | 0       |
| Interest payable   | 310             | 310                  | 0                             | 310     | 0       |
| Derivative liabilities   | 370             | 370                  | 1                             | 327     | 42      |

| (Dollars in millions)  | December 31, 2012 |                      | Fair Value Measurements Using |         |         |
|--|-------------------|----------------------|-------------------------------|---------|---------|
|  | Carrying Amount   | Estimated Fair Value | Level 1                       | Level 2 | Level 3 |
| <b>Financial assets</b>  |                   |                      |                               |         |         |
| Cash and cash equivalents  | \$ 11,058         | \$ 11,058            | \$ 11,058                     | \$ 0    | \$ 0    |
| Restricted cash for securitization investors   | 428               | 428                  | 428                           | 0       | 0       |
| Securities available for sale  | 63,979            | 63,979               | 1,697                         | 59,593  | 2,689   |
| Loans held for sale  | 201               | 201                  | 0                             | 201     | 0       |
| Net loans held for investment  | 200,733           | 205,000              | 0                             | 0       | 205,000 |
| Interest receivable  | 1,694             | 1,694                | 0                             | 1,694   | 0       |
| Derivatives  | 1,848             | 1,848                | 1                             | 1,757   | 90      |
| Mortgage servicing rights  | 55                | 55                   | 0                             | 0       | 55      |
| <b>Financial liabilities</b>   |                   |                      |                               |         |         |
| Non-interest bearing deposits  | \$ 22,467         | \$ 22,467            | \$ 22,467                     | \$ 0    | \$ 0    |
| Interest-bearing deposits  | 190,018           | 189,423              | 0                             | 22,216  | 167,207 |
| Securitized debt obligations   | 11,398            | 11,590               | 0                             | 11,252  | 338     |
| Senior and subordinated notes  | 12,686            | 13,312               | 0                             | 13,312  | 0       |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 1,248             | 1,248                | 1,248                         | 0       | 0       |

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|                  |        |        |     |        |    |
|------------------|--------|--------|-----|--------|----|
| Other borrowings | 24,578 | 24,616 | 346 | 24,215 | 55 |
| Interest payable | 450    | 450    | 0   | 450    | 0  |
| Derivatives      | 400    | 400    | 1   | 361    | 38 |

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**CAPITAL ONE FINANCIAL CORPORATION**

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

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of March 31, 2013 and December 31, 2012. We applied the fair value provisions, to the financial instruments not recognized on the consolidated balance sheet at fair value, which include loans held for investment, interest receivable, non-interest bearing and interest bearing deposits, other borrowings, senior and subordinated notes, and interest payable. The provisions requiring us to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into our selection of inputs of our established valuation techniques.

***Cash and Cash Equivalents***

The carrying amounts of cash and due from banks, federal funds sold and securities purchased under agreements to resell and interest-bearing deposits with banks approximate fair value.

***Restricted Cash for Securitization Investors***

The carrying amounts of restricted cash for securitization investors approximate their fair value due to their relatively short-term nature.

***Securities Available For Sale***

Quoted prices in active markets are used to measure the fair value of U.S. Treasury securities. For other investment categories, we utilize multiple third-party pricing services to obtain fair value measures for the large majority of our securities. A pricing service may be considered as the primary pricing provider for certain types of securities, and the designation of the primary pricing provider may vary depending on the type of securities. The determination of the primary pricing provider is based on our experience and validation benchmark of the pricing service's performance in terms of providing fair value measurement for the various types of securities.

Certain securities available for sale are classified as Level 2 and 3, the majority of which are collateralized mortgage obligations and mortgage-backed securities. Level 2 and 3 classifications indicate that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings, and losses. The techniques used by the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves, and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings, and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results, and other internal sources. Pricing variances among different pricing sources are analyzed and validated. Additionally, on an on-going basis we may select a sample of securities and test the third-party valuation by obtaining more detailed information about the pricing methodology, sources of information, and assumptions used to value the securities.

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**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The significant unobservable inputs used in the fair value measurement of our residential, asset-backed and commercial securities include yield, prepayment rate, default rate and loss severity in the event of default. Significant increases (decreases) in any of those inputs in isolation or combination would result in a significant change in fair value measurement. Generally, an increase in the yield assumption will result in a decrease in fair value measurement, however, an increase or decrease in prepayment rate, default rate or loss severity may have a different impact on the fair value given various characteristics of the security including the capital structure of the deal, credit enhancement for the security or other factors.

There was little change in the market value of our portfolio holdings as of March 31, 2013, compared with December 31, 2012 due to the offsetting effect of higher interest rates and reduced risk premiums.

***Loans Held For Sale***

We determined the fair value of the Best Buy loan portfolio, which was transferred to held for sale, based upon the purchase price specified in the purchase and sale agreement, which is deemed to be representative of a market price. See Note 4 Loans for further discussion on the Best Buy portfolio transferred to held for sale from held for investment in the first quarter of 2013. Our estimation of the fair value of the remaining loans classified as held for sale was determined using current secondary market prices for loan pools with similar characteristics. The carrying amount of these remaining loans held for sale as of March 31, 2013 and December 31, 2012 approximates fair value.

***Loans Held For Investment, Net***

The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans were estimated using a discounted cash flow method, a form of the income approach. Discount rates were determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excluded any value related to customer account relationships. The increase in fair value above carrying amount as of March 31, 2013 was primarily due to a tightening of liquidity spreads and improved credit performance noted in our mortgage and commercial loan portfolios.

***Interest Receivable***

The carrying amount of interest receivable approximates the fair value of this asset due to its relatively short-term nature.

***Derivative Assets and Liabilities***

We use both exchange-traded derivatives and over-the-counter (OTC) derivatives to manage our interest rate and foreign currency risk exposure. Quoted market prices are available and used for our exchange-traded derivatives, which we classify as Level 1. However, substantially all of our derivatives are traded in OTC markets where quoted market prices are not always readily available. Therefore, we value most OTC derivatives using valuation techniques, which include internally-developed models. We primarily rely on market observable inputs for our models, such as interest rate yield curves, credit curves, option volatility and currency rates, that vary depending on the type of derivative and nature of the underlying rate, price or index upon which the derivative's value is based. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such as interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves, the derivatives are classified as Level 3.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

The impact of counterparty non-performance risk is considered when measuring the fair value of derivative receivables. These derivatives are included in other assets on the balance sheet.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

***Mortgage Servicing Rights***

Mortgage Servicing Rights (MSRs) do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSRs using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate, cost to service, contractual servicing fee income, ancillary income and late fees. We record MSRs at fair value on a recurring basis. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3.

***Non-Interest Bearing Deposits***

The carrying amount of non-interest bearing deposits approximates fair value.

***Interest-Bearing Deposits***

The fair value of interest-bearing deposits was determined based on discounted expected cash flows using discount rates consistent with current market rates for similar products with similar remaining terms.

***Securitized Debt Obligations***

We utilized multiple third party pricing services to obtain fair value measures for the large majority of our securitized debt obligations. The techniques used by the pricing services utilize observable market data to the extent available; and pricing models may be used which incorporate available trade, bid and other market information as described in the above section. We used internal pricing models, discounted cash flow models or similar techniques to estimate the fair value of certain securitization trusts where third-party pricing was not available.

***Senior and Subordinated Notes***

We engage multiple third party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing service utilizes a pricing model that incorporates available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models.

***Federal Funds Purchased and Securities Loaned or Sold under Agreements to Repurchase and Other Borrowings***

The carrying amount of federal funds purchased and repurchase agreements approximates fair value. The fair value of FHLB advances was determined based on discounted expected cash flows using discount rates consistent with current market rates for FHLB advances with similar remaining terms. We engage multiple third party pricing services in order to estimate the fair value of junior subordinated borrowings. The pricing service utilizes a pricing model that incorporates available trade information. It also incorporates available market and credit information into the pricing process. The increase in fair value of our other borrowings above carrying values at March 31, 2013 was primarily due to market interest rates being slightly lower than the interest rates on the debt we own.



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**CAPITAL ONE FINANCIAL CORPORATION**

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

***Interest Payable***

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.

***Commitments***

We provide commitments that include extending credit and letters of credit. These financial instruments are generally not sold or traded. The fair values of the financial guarantees outstanding and included in other liabilities as of March 31, 2013 and December 31, 2012 were \$3 million and \$4 million, respectively. The estimated fair values of extensions of credit and letters of credit are not readily available. However, the fair value of commitments to extend credit and letters of credit is based on fees currently charged to enter into similar agreements with comparable credit risks and the current creditworthiness of the counterparties. Commitments to extend credit issued by us are generally short-term in nature and, if drawn upon, are issued under current market terms and conditions for credits with comparable risks. As of March 31, 2013 and December 31, 2012, there was no material unrealized appreciation or depreciation on these financial instruments.

**NOTE 13 BUSINESS SEGMENTS**

Our principal operations are currently organized for management reporting purposes into three primary business segments, which are defined primarily based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. 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.

**Basis of Presentation**

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management accounting and reporting process to derive our business segment results. Our internal management accounting and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses. We provide additional information on the allocation methodologies used to derive our business segment results in Note 20 Business Segments in our 2012 Form 10-K.

**Segment Results and Reconciliation**

The following tables present our business segment results for the three months ended March 31, 2013 and 2012, selected balance sheet data as of March 31, 2013 and December 31, 2012 and a reconciliation of our total business segment results to our reported consolidated income from continuing operations, assets and deposits. Prior period amounts have been recast to conform to the current period presentation.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

| (Dollars in millions)  | Three Months Ended March 31, 2013 |                     |                       |          | Consolidated<br>Total |
|--|-----------------------------------|---------------------|-----------------------|----------|-----------------------|
|  | Credit<br>Card                    | Consumer<br>Banking | Commercial<br>Banking | Other    |                       |
| Net interest income  | \$ 2,830                          | \$ 1,478            | \$ 454                | \$ (192) | \$ 4,570              |
| Non-interest income  | 821                               | 181                 | 84                    | (105)    | 981                   |
| Total net revenue  | 3,651                             | 1,659               | 538                   | (297)    | 5,551                 |
| Provision for credit losses                                  | 743                               | 175                 | (35)                  | 2        | 885                   |
| Non-interest expense:  |                                   |                     |                       |          |                       |
| Amortization of intangibles:                                 |                                   |                     |                       |          |                       |
| PCCR intangible amortization                                 | 116                               | 0                   | 0                     | 0        | 116                   |
| Core deposit intangible amortization                         | 0                                 | 37                  | 7                     | 0        | 44                    |
| Total amortization of intangibles                            | 116                               | 37                  | 7                     | 0        | 160                   |
| Other non-interest expense                                   | 1,732                             | 853                 | 251                   | 32       | 2,868                 |
| Total non-interest expense                                   | 1,848                             | 890                 | 258                   | 32       | 3,028                 |
| Income (loss) from continuing operations before income taxes | 1,060                             | 594                 | 315                   | (331)    | 1,638                 |
| Income tax provision (benefit)                               | 374                               | 211                 | 112                   | (203)    | 494                   |
| Income from continuing operations, net of tax                | \$ 686                            | \$ 383              | \$ 203                | \$ (128) | \$ 1,144              |

| (Dollars in millions)                                 | Three Months Ended March 31, 2012 |                     |                       |          | Consolidated<br>Total |
|---|-----------------------------------|---------------------|-----------------------|----------|-----------------------|
|   | Credit<br>Card                    | Consumer<br>Banking | Commercial<br>Banking | Other    |                       |
| Net interest income                                   | \$ 1,992                          | \$ 1,288            | \$ 431                | \$ (297) | \$ 3,414              |
| Non-interest income                                   | 598                               | 176                 | 85                    | 662      | 1,521                 |
| Total net revenue                                     | 2,590                             | 1,464               | 516                   | 365      | 4,935                 |
| Provision for credit losses                           | 458                               | 174                 | (69)                  | 10       | 573                   |
| Non-interest expense:                                 |                                   |                     |                       |          |                       |
| Amortization of intangibles:                          |                                   |                     |                       |          |                       |
| PCCR intangible amortization                          | 4                                 | 0                   | 0                     | 0        | 4                     |
| Core deposit intangible amortization                  | 0                                 | 37                  | 9                     | 0        | 46                    |
| Total amortization of intangibles                     | 4                                 | 37                  | 9                     | 0        | 50                    |
| Other non-interest expense                            | 1,264                             | 906                 | 252                   | 32       | 2,454                 |
| Total non-interest expense                            | 1,268                             | 943                 | 261                   | 32       | 2,504                 |
| Income from continuing operations before income taxes | 864                               | 347                 | 324                   | 323      | 1,858                 |
| Income tax provision (benefit)                        | 298                               | 123                 | 114                   | (182)    | 353                   |
| Income from continuing operations, net of tax         | \$ 566                            | \$ 224              | \$ 210                | \$ 505   | \$ 1,505              |



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)****Business Segment Loans Held for Investment and Deposits**

The total loans held for investment and customer deposits attributable to each of our reportable business segments as of March 31, 2013 and December 31, 2012 are presented in the tables below.

| (Dollars in millions)           | March 31, 2013 |                  |                    |        | Consolidated Total |
|---------------------------------|----------------|------------------|--------------------|--------|--------------------|
|                                 | Credit Card    | Consumer Banking | Commercial Banking | Other  |                    |
| Total loans held for investment | \$ 78,397      | \$ 73,613        | \$ 39,150          | \$ 173 | \$ 191,333         |
| Total customer deposits         | 0              | 172,605          | 30,275             | 9,530  | 212,410            |

| (Dollars in millions)           | December 31, 2012 |                  |                    |        | Consolidated Total |
|---------------------------------|-------------------|------------------|--------------------|--------|--------------------|
|                                 | Credit Card       | Consumer Banking | Commercial Banking | Other  |                    |
| Total loans held for investment | \$ 91,755         | \$ 75,127        | \$ 38,820          | \$ 187 | \$ 205,889         |
| Total customer deposits         | 0                 | 172,396          | 29,866             | 10,223 | 212,485            |

**NOTE 14 COMMITMENTS, CONTINGENCIES AND GUARANTEES****Letters of Credit**

We issue letters of credit (financial standby, performance standby and commercial) to meet the financing needs of our customers. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party in a borrowing arrangement. Commercial letters of credit are short-term commitments issued primarily to facilitate trade finance activities for customers and are generally collateralized by the goods being shipped to the client. Collateral requirements are similar to those for funded transactions and are established based on management's credit assessment of the customer. Management conducts regular reviews of all outstanding letters of credit and customer acceptances, and the results of these reviews are considered in assessing the adequacy of our allowance for loan and lease losses.

We had standby letters of credit and commercial letters of credit with contractual amounts of \$2.0 billion and \$1.9 billion as of March 31, 2013 and December 31, 2012, respectively. The fair value of outstanding financial guarantees, which we include in other liabilities in our consolidated balance sheets, was \$3 million as of March 31, 2013. These financial guarantees had expiration dates ranging from 2013 to 2018 as of March 31, 2013.

**Contingent Payments Related to Acquisitions and Partnership Agreements**

Certain of our acquisition and partnership agreements include contingent payment provisions in which we agree to provide future payments, up to a maximum amount, based on certain performance criteria. Our contingent payment arrangements are generally based on the difference between the expected credit performance of specified loan portfolios as of the date of the applicable agreement and the actual future performance. To the extent that actual losses associated with these portfolios are less than the expected level, we agree to share a portion of the benefit with the seller. The maximum contingent payment amount related to our acquisitions totaled \$30 million as of March 31, 2013. The actual payment amount related to \$30 million will be determined as of September 30, 2013. We recognized expense related to contingent

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payment arrangements of \$1 million during the first quarter of 2013. As such, we had a liability for contingent payments related to these arrangements of \$30 million and \$165 million as of March 31, 2013 and December 31, 2012, respectively. On January 4, 2013, we settled one of our existing contingent payment arrangements for \$135 million.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

**Guarantees**

We have credit exposure on agreements that we entered into to absorb a portion of the risk of loss on certain manufactured housing securitizations issued by GPC in 2000. Our maximum credit exposure related to these agreements totaled \$19 million as of March 31, 2013 and December 31, 2012. These agreements are recorded in our consolidated balance sheets as a component of other liabilities. Our recorded liability under these agreements was \$17 million as of March 31, 2013 and December 31, 2012. See Note 6 Variable Interest Entities and Securitizations for additional information about our manufactured housing securitization transactions.

**Payment Protection Insurance**

In the U.K., we previously sold payment protection insurance ( PPI ). In response to an elevated level of customer complaints across the industry, heightened media coverage and pressure from consumer advocacy groups, the U.K. Financial Services Authority ( FSA ) investigated and raised concerns about the way some companies have handled complaints related to the sale of these insurance policies. In connection with this matter, we have established a reserve related to PPI, which totaled \$175 million and \$220 million as of March 31, 2013 and December 31, 2012, respectively.

**Potential Mortgage Representation & Warranty Liabilities**

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

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but mortgage loan performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the then unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans after giving effect to any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make cash payments to make an investor whole on losses or to settle repurchase claims, possibly including, claims for attorneys' fees and interest. In addition, our subsidiaries may be required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties.

These subsidiaries, in total, originated and sold to non-affiliates approximately \$111 billion original principal balance of mortgage loans between 2005 and 2008, which are the years (or vintages ) with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims.

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The following table presents the original principal balance of mortgage loan originations, by vintage for 2005 through 2008, for the three general categories of purchasers of mortgage loans and the estimated outstanding principal balance as of March 31, 2013 and December 31, 2012:

**Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser (UPB is estimated)**

| (Dollars in billions)                                    | Unpaid Principal Balance |                      | Original Unpaid Principal Balance |      |       |       |       |
|--|--------------------------|----------------------|-----------------------------------|------|-------|-------|-------|
|  | March 31,<br>2013        | December 31,<br>2012 | Total                             | 2008 | 2007  | 2006  | 2005  |
| Government sponsored enterprises ( GSEs <sup>(1)</sup> ) | \$ 4                     | \$ 4                 | \$ 11                             | \$ 1 | \$ 4  | \$ 3  | \$ 3  |
| Insured Securitizations                                  | 5                        | 5                    | 20                                | 0    | 2     | 8     | 10    |
| Uninsured Securitizations and Other                      | 23                       | 23                   | 80                                | 3    | 15    | 30    | 32    |
| Total  | \$ 32                    | \$ 32                | \$ 111                            | \$ 4 | \$ 21 | \$ 41 | \$ 45 |

<sup>(1)</sup> GSEs include Fannie Mae and Freddie Mac.

Between 2005 and 2008, our subsidiaries sold an aggregate amount of \$11 billion in original principal balance mortgage loans to the GSEs.

Of the \$20 billion in original principal balance of mortgage loans sold directly by our subsidiaries to private-label purchasers who placed the loans into securitizations supported by bond insurance ( Insured Securitizations ), approximately 48% of the original principal balance was covered by the bond insurance. Further, approximately \$16 billion original principal balance was placed in securitizations as to which the monoline bond insurers have made repurchase requests or loan file requests to one of our subsidiaries ( Active Insured Securitizations ), and the remaining approximately \$4 billion original principal balance was placed in securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries ( Inactive Insured Securitizations ). Insured Securitizations often allow the monoline bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Because we do not service most of the loans our subsidiaries sold to others, we do not have complete information about the current ownership of a portion of the \$80 billion in original principal balance of mortgage loans not sold directly to GSEs or placed in Insured Securitizations. We have determined based on information obtained from third-party databases that about \$48 billion original principal balance of these mortgage loans are currently held by private-label publicly issued securitizations not supported by bond insurance ( Uninsured Securitizations ). An additional approximately \$22 billion original principal balance of mortgage loans were initially sold to private investors as whole loans. Various known and unknown investors purchased \$10 billion original principal balance of mortgage loans in this category.

With respect to the \$111 billion in original principal balance of mortgage loans originated and sold to others between 2005 and 2008, we estimate that approximately \$32 billion in unpaid principal balance remains outstanding as of March 31, 2013, approximately \$18 billion in losses have been realized and approximately \$8 billion in unpaid principal balance is at least 90 days delinquent. Because we do not service most of the loans we sold to others, we do not have complete information about the underlying credit performance levels for some of these mortgage loans. These amounts reflect our best estimates, including extrapolations of underlying credit performance where necessary. These estimates could change as we get additional data or refine our analysis.



**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

The subsidiaries had open repurchase requests relating to approximately \$2.6 billion original principal balance of mortgage loans as of March 31, 2013, compared with \$2.4 billion as of December 31, 2012. As of March 31, 2013, the majority of new repurchase demands received over the last year and, as discussed below, the majority of our \$994 million reserve relates to the \$27 billion of original principal balance of mortgage loans originally sold to the GSEs or to Active Insured Securitizations. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase demands from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

The following table presents information on pending repurchase requests by counterparty category and timing of initial repurchase request. The amounts presented are based on original loan principal balances.

**Open Pipeline All Vintages (all entities)<sup>(1)</sup>**

| (Dollars in millions) (All amounts are Original Principal Balance) | GSEs   | Insured<br>Securitizations | Uninsured<br>Securitizations<br>and Other | Total    |
|--|--------|----------------------------|---|----------|
| Open claims as of December 31, 2011                                | \$ 176 | \$ 1,243                   | \$ 672                                    | \$ 2,091 |
| Gross new demands received   | 189    | 366                        | 291                                       | 846      |
| Loans repurchased/made whole                                       | (233)  | (3)                        | (138)                                     | (374)    |
| Demands rescinded  | (75)   | (30)                       | (40)                                      | (145)    |
| Reclassifications <sup>(2)</sup>                                   | 2      | 3                          | (4)                                       | 1        |
| Open claims as of December 31, 2012                                | \$ 59  | \$ 1,579                   | \$ 781                                    | \$ 2,419 |
| Gross new demands received   | 38     | 29                         | 138                                       | 205      |
| Loans repurchased/made whole                                       | (5)    | 0                          | (2)                                       | (7)      |
| Demands rescinded  | (24)   | 0                          | (4)                                       | (28)     |
| Open claims as of March 31, 2013                                   | \$ 68  | \$ 1,608                   | \$ 913                                    | \$ 2,589 |

<sup>(1)</sup> The open pipeline includes all repurchase requests ever received by our subsidiaries where either the requesting party has not formally rescinded the repurchase request and where our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its losses. Accordingly, repurchase requests denied by our subsidiaries and not pursued by the counterparty remain in the open pipeline. Moreover, repurchase requests submitted by parties without contractual standing to pursue repurchase requests are included within the open pipeline unless the requesting party has formally rescinded its repurchase request. Finally, the amounts reflected in this chart are the original principal balance amounts of the mortgage loans at issue and do not correspond to the losses our subsidiary would incur upon the repurchase of these loans.

<sup>(2)</sup> Represents adjustments to correct the counterparty category as of December 31, 2012 for amounts that were misclassified. The reclassification had no impact on the total pending repurchase requests; however, it resulted in an increase in open claims attributable to GSEs and Insured Securitizations and a decrease in open claims attributable to Uninsured Securitizations and Other.

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The following table summarizes changes in our representation and warranty reserves for the three months ended March 31, 2013 and 2012, and for full year 2012:

**Changes in Representation and Warranty Reserves**

| (Dollars in millions)  | Three Months Ended |                   | Full Year<br>2012 |
|--|--------------------|-------------------|-------------------|
|  | 2013               | March 31,<br>2012 |                   |
| Representation and warranty repurchase reserve, beginning of period <sup>(1)</sup> | \$ 899             | \$ 943            | \$ 943            |
| Provision for mortgage representation and warranty losses <sup>(2)</sup>           | 97                 | 169               | 349               |
| Net realized losses  | (2)                | (11)              | (393)             |
| Representation and warranty repurchase reserve, end of period <sup>(1)</sup>       | \$ 994             | \$ 1,101          | \$ 899            |

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

(2) The pre-tax portion of the provision for mortgage representation and warranty recognized in our condensed consolidated statements of income as a component of non-interest income was negative \$10 million in the first quarter of 2013, compared with expense of \$16 million in the first quarter of 2012. The pre-tax portion of the provision for mortgage representation and warranty recognized in our consolidated statements of income as a component of discontinued operations totaled \$107 million and \$153 million in the first quarter of 2013 and 2012, respectively.

As indicated in the table below, most of the reserves relate to the \$27 billion in original principal balance of mortgage loans sold directly to the GSEs or to the Active Insured Securitizations.

**Allocation of Representation and Warranty Reserves**

| (Dollars in millions, except for loans sold) | Reserve Liability |                      | Loans Sold<br>2005 to 2008 <sup>(1)</sup> |
|--|-------------------|----------------------|---|
|  | March 31,<br>2013 | December 31,<br>2012 |   |
| <b>Selected period-end data:</b>             |                   |                      |   |
| GSEs and Active Insured Securitizations      | \$ 827            | \$ 817               | \$ 27                                     |
| Inactive Insured Securitizations and Others  | 167               | 82                   | 84  |
| Total  | \$ 994            | \$ 899               | \$ 111                                    |

(1) Reflects, in billions, the total original principal balance of mortgage loans originated by our subsidiaries and sold to third party investors between 2005 and 2008.

In establishing reserves for the \$11 billion original principal balance of GSE loans, we rely on the historical relationship between GSE loan losses and repurchase outcomes for each GSE, adjusted for any settlements, to estimate: (1) the percentage of current and future GSE loan defaults that we anticipate will result in repurchase requests from the GSEs over the lifetime of the GSE loans; and (2) the percentage of those repurchase requests that we anticipate will result in actual repurchases. We also rely on estimated collateral valuations and loss forecast models to estimate our lifetime liability on GSE loans. This reserving approach to the GSE loans reflects the historical interaction with the GSEs around repurchase requests, and also includes anticipated repurchases resulting from mortgage insurance rescissions. Although our assumed future

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claims rate considers the most recent claims experience and actual repurchases, an increase in GSE claims and or repurchases could result in an increase in our reserve. We have entered into and completed repurchase or settlement agreements with respect to the majority of our exposure within this category.

For the \$16 billion original principal balance in Active Insured Securitizations, our reserving approach also reflects our historical interaction with monoline bond insurers around repurchase requests. Typically, monoline

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**CAPITAL ONE FINANCIAL CORPORATION**

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

bond insurers allege a very high repurchase rate with respect to the mortgage loans in the Active Insured Securitization category. In response to these repurchase requests, our subsidiaries typically request information from the monoline bond insurers demonstrating that the contractual requirements around a valid repurchase request have been satisfied. In response to these requests for supporting documentation, monoline bond insurers typically initiate litigation. Accordingly, our reserves within the Active Insured Securitization segment are not based upon the historical repurchase rate with monoline bond insurers, but rather upon the expected resolution of litigation with the monoline bond insurers. Every bond insurer within this category is pursuing a substantially similar litigation strategy either through active or probable litigation. Accordingly, our representation and warranty reserves for this category are litigation reserves.

In establishing litigation reserves for this category, we consider the current and future monoline insurer losses inherent within the securitization and apply legal judgment to the anticipated factual and legal record to estimate the lifetime legal liability for each securitization. In calculating our reserves, we have assumed we will pay at least a certain percentage of the monoline insurer's losses, as alleged in each litigation. We rely on our own past monoline settlement ratios in addition to considering publicly available industry monoline settlement ratios to establish these calculations. We have observed court rulings against other mortgage originators that, if upheld on appeal, would create negative precedent for lawsuits involving our collateral; however, the probable impact of these specific rulings to our litigation reserves cannot be determined at this time. Our reserves with respect to the U.S. Bank Litigation, the DBSP Litigation, and the Ambac Litigation, in each case as referenced below, are contained within the Active Insured Securitization reserve category. Further, to the extent we have litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by monoline bond insurers against third-party securitizations sponsors, where one of our subsidiaries provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation, such reserves are also contained within this category.

For the \$4 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the \$48 billion original principal balance of mortgage loans in the Uninsured Securitizations category, we establish reserves for grounded claims by parties with standing (as determined by the controlling legal contracts), utilizing both our own experience and publicly available industry settlement information to estimate lifetime liability. In contrast with the bond insurers in Insured Securitizations, investors in Uninsured Securitizations often face a number of legal and logistical hurdles before they can force a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. Despite these legal and logistical hurdles, there is a risk that securitization trustees will pursue mortgage repurchase litigation unilaterally or in coordination with investors. There is also a risk that investors will be able to successfully pursue repurchase litigation independently and without the involvement of the trustee as a party. We do not believe these risks are probable of occurrence based on recent history, and as such we have not provided for such risks in our reserve. Some Uninsured Securitization investors from this category are currently suing investment banks and securitization sponsors under federal and/or state securities laws. Although we face some direct and indirect indemnity risks from these litigations, we have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities.

For the \$32 billion original principal balance of mortgage loans sold to private investors as whole loans, we establish reserves by relying on our historical and anticipated claims and repurchase rates to estimate lifetime liability.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

The aggregate reserves for all three subsidiaries totaled \$994 million as of March 31, 2013, compared with \$899 million as of December 31, 2012. We recorded a total provision for mortgage representation and warranty losses for our representation and warranty repurchase exposure of \$97 million in the first quarter of 2013, which was primarily driven by increased counterparty activity with respect to GreenPoint loans. During the quarter, we had settlements of repurchase requests totaling \$2 million that were charged against the reserves.

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

In estimating reasonably possible future losses in excess of our current reserves, we assume a portion of the inactive securitizations become active and for all Insured Securitizations, we assume loss rates on the high end of those observed in monoline settlements or court rulings. For our remaining GSE exposures, Uninsured Securitizations and whole loan exposures, our reasonably possible risk estimates assume lifetime loss rates and claims rates at the highest levels of our past experience and also consider the limited instances of observed settlements. We do not assume claim rates or loss rates for these risk categories will be similar to those assumed for the Active Insured Securitizations, however, based on industry precedent. Should the number of claims or the loss rates on these claims increase significantly, our estimate of reasonably possible risk would increase materially. We also assume that we will resolve any loan repurchase requests relating to loans originated more than six years ago at a discount as compared to those originated within six years of a repurchase claim because of the pending legal arguments in various matters around the applicable statute of limitations.

Notwithstanding our ongoing attempts to estimate a reasonably possible amount of future losses beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimate of the amount of reasonably possible losses. Our reserve and reasonably possible estimates involve considerable judgment and reflect that there is still significant uncertainty regarding numerous factors that may impact the ultimate loss levels, including, but not limited to: anticipated litigation outcomes; future repurchase and indemnification claim levels; securitization trustees pursuing mortgage repurchase litigation unilaterally or in coordination with investors; investors successfully pursuing repurchase litigation independently and without the involvement of the trustee as a party; ultimate repurchase and indemnification rates; future mortgage loan performance levels; actual recoveries on the collateral; and macroeconomic conditions (including unemployment levels and housing prices). In light of the significant uncertainty as to the ultimate liability our subsidiaries may incur from these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

**Litigation**

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation related matters when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Below we provide a description of material legal proceedings and claims.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

For some of the matters disclosed below, we are able to determine estimates of potential future outcomes that are not probable and reasonably estimable outcomes justifying either the establishment of a reserve or an incremental reserve build, but which are reasonably possible outcomes. For other disclosed matters, such an estimate is not possible at this time. For those matters below where an estimate is possible, excluding the reasonably possible future losses relating to the U.S. Bank Litigation, the DBSP Litigation, the Ambac Litigation, the LXS Trusts Litigation, and the FHLB of Boston Litigation because reasonably possible losses with respect to those litigations are included within the reasonably possible representation and warranty liabilities discussed above, management currently estimates the reasonably possible future losses could be approximately \$150 million. Notwithstanding our attempt to estimate a reasonably possible range of loss beyond our current accrual levels for some litigation matters based on current information, it is possible that actual future losses will exceed both the current accrual level and the range of reasonably possible losses disclosed here. Given the inherent uncertainties involved in these matters, and the very large or indeterminate damages sought in some of these matters, there is significant uncertainty as to the ultimate liability we may incur from these litigation matters and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

***Interchange Litigation***

In 2005, a number of entities, each purporting to represent a class of retail merchants, filed antitrust lawsuits (the Interchange Lawsuits) against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. The complaints seek injunctive relief and civil monetary damages, which could be trebled. Separately, a number of large merchants have asserted similar claims against Visa and MasterCard only. In October 2005, the class and merchant Interchange Lawsuits were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. On July 13, 2012, the parties executed and filed with the court a Memorandum of Understanding agreeing to resolve the litigation on certain terms set forth in a settlement agreement attached to the Memorandum. This agreement is contingent on final court approval of the class settlement. In November 2012, the court granted preliminary approval of the class settlement. The court is scheduled to consider final approval of the class settlement in September, 2013. The class settlement provides for, among other things, (i) payments by defendants to the class and individual plaintiffs totaling approximately \$6.6 billion; (ii) a distribution to the class merchants of an amount equal to 10 basis points of certain interchange transactions for a period of eight months; and (iii) modifications to certain Visa and MasterCard rules regarding point of sale practices.

As members of Visa, our subsidiary banks have indemnification obligations to Visa with respect to final judgments and settlements, including the Interchange Lawsuits. In the first quarter of 2008, Visa completed an IPO of its stock. With IPO proceeds, Visa established an escrow account for the benefit of member banks to fund certain litigation settlements and claims, including the Interchange Lawsuits. As a result, in the first quarter of 2008, we reduced our Visa-related indemnification liabilities of \$91 million recorded in other liabilities with a corresponding reduction of other non-interest expense. We made an election in accordance with the accounting guidance for fair value option for financial assets and liabilities on the indemnification guarantee to Visa, and the fair value of the guarantee at December 31, 2011 and December 31, 2012 was zero. Separately, in January 2011, we entered into a MasterCard Settlement and Judgment Sharing Agreement, along with other defendant banks, which apportions between MasterCard and its member banks the costs and liabilities of any judgment or settlement arising from the Interchange Lawsuits.

In March 2011, a furniture store owner named Mary Watson filed a proposed class action in the Supreme Court of British Columbia against Visa, MasterCard, and several banks, including Capital One (the Watson Litigation). The lawsuit asserts, among other things, that the defendants conspired to fix the merchant discount fees that merchants pay on credit card transactions in violation of Section 45 of the Competition Act and seeks

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

unspecified damages and injunctive relief. In addition, Capital One has been named as a defendant in similar proposed class action claims filed in other jurisdictions in Canada. The Court heard oral argument on plaintiffs' motion for class certification in the Watson Litigation in April, 2013, and the parties await a ruling.

***Late Fees Litigation***

In 2007, a number of individual plaintiffs, each purporting to represent a class of cardholders, filed antitrust lawsuits in the U.S. District Court for the Northern District of California against several issuing banks, including us. These lawsuits allege, among other things, that the defendants conspired to fix the level of late fees and over-limit fees charged to cardholders, and that these fees are excessive. In May 2007, the cases were consolidated for all purposes, and a consolidated amended complaint was filed alleging violations of federal statutes and state law. The amended complaint requests civil monetary damages, which could be trebled, and injunctive relief. In November 2007, the court dismissed the amended complaint. Plaintiffs appealed that order to the Ninth Circuit Court of Appeals. The plaintiffs' appeal challenges the dismissal of their claims under the National Bank Act, the Depository Institutions Deregulation Act of 1980 and the California Unfair Competition Law (the UCL), but not their antitrust conspiracy claims. In June 2009, the Ninth Circuit Court of Appeals stayed the matter pending the bankruptcy proceedings of one of the defendant financial institutions. After numerous stays since 2009, the Ninth Circuit entered an order lifting the stay on August 29, 2012, and will now hear the appeal. The Ninth Circuit held oral argument on February 11, 2013, and the parties await the court's decision.

***Credit Card Interest Rate Litigation***

In July 2010, the U.S. Court of Appeals for the Ninth Circuit reversed a dismissal entered in favor of COBNA in *Rubio v. Capital One Bank*, which was filed in the U.S. District Court for the Central District of California in 2007. The plaintiff in *Rubio* alleges in a putative class action that COBNA breached its contractual obligations and violated the Truth In Lending Act (the TILA) and the California Unfair Competition Law (UCL) when it raised interest rates on certain credit card accounts. In May, 2012, the parties agreed to a California-only settlement for a non-material amount, and the Court stayed the case for all purposes except for approval of the settlement. On April 1, 2013, the court granted final approval of the class settlement, and Capital One will begin making payments required under the class settlement agreement.

The Capital One Bank Credit Card Interest Rate Multi-district Litigation matter was created as a result of a June 2010 transfer order issued by the United States Judicial Panel on Multi-district Litigation (MDL), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Georgia two pending putative class actions against COBNA: *Nancy Mancuso, et al. v. Capital One Bank (USA), N.A., et al.*, (E.D. Virginia); and *Kevin S. Barker, et al. v. Capital One Bank (USA), N.A.*, (N.D. Georgia). A third action, *Jennifer L. Kolkowski v. Capital One Bank (USA), N.A.*, (C.D. California) was subsequently transferred into the MDL. On August 2, 2010, the plaintiffs in the MDL filed a Consolidated Amended Complaint. The Consolidated Amended Complaint alleges in a putative class action that COBNA breached its contractual obligations, and violated the TILA, the California Consumers Legal Remedies Act, the UCL, the California False Advertising Act, the New Jersey Consumer Fraud Act, and the Kansas Consumer Protection Act when it raised interest rates on certain credit card accounts. The MDL plaintiffs seek statutory damages, restitution, attorney's fees and an injunction against future rate increases. Fact discovery is now closed. On August 8, 2011, Capital One filed a motion for summary judgment, which remains pending with the court. As a result of the settlement in *Rubio v. Capital One Bank*, the California-based UCL and TILA claims in the MDL are extinguished.

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)*****Mortgage Repurchase Litigation***

On February 5, 2009, GreenPoint was named as a defendant in a lawsuit commenced in the New York County Supreme Court, by U.S. Bank, N.A., Syncora Guarantee Inc. and CIFG Assurance North America, Inc. (the "U.S. Bank Litigation"). Plaintiffs allege, among other things, that GreenPoint breached certain representations and warranties in two contracts pursuant to which GreenPoint sold approximately 30,000 mortgage loans having an aggregate original principal balance of approximately \$1.8 billion to a purchaser that ultimately transferred most of these mortgage loans to a securitization trust. Some of the securities issued by the trust were insured by two of the plaintiffs Syncora and CIFG. Plaintiffs seek unspecified damages and an order compelling GreenPoint to repurchase the entire portfolio of 30,000 mortgage loans based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio, or, alternatively, the repurchase of specific mortgage loans to which the alleged breaches of representations and warranties relate. On March 3, 2010, the Court granted GreenPoint's motion to dismiss with respect to plaintiffs Syncora and CIFG and denied the motion with respect to U.S. Bank. GreenPoint subsequently answered the complaint with respect to U.S. Bank, denying the allegations, and filed a counterclaim against U.S. Bank alleging breach of covenant of good faith and fair dealing. On February 28, 2012, the Court denied plaintiffs' motion for leave to file an amended complaint and dismissed Syncora and CIFG from the case. Syncora and CIFG appealed their dismissal to the New York Supreme Court, Appellate Division, First Department (the "First Department"). In April, 2013, the First Department affirmed the dismissal of Syncora and CIFG from the case.

In September, 2010, DB Structured Products, Inc. ("DBSP") named GreenPoint in a third-party complaint, filed in the New York County Supreme Court, alleging breach of contract and seeking indemnification (the "DBSP Litigation"). In the underlying suit, Assured Guaranty Municipal Corp. ("AGM") sued DBSP for alleged breaches of representations and warranties made by DBSP with respect to certain residential mortgage loans that collateralize a securitization insured by AGM and sponsored by DBSP (the "Underlying Lawsuit"). DBSP purchased the HELOC loans from GreenPoint in 2006. The entire securitization, almost all of which is insured by AGM, is comprised of about 6,200 mortgage loans with an aggregate original principal balance of approximately \$353 million. DBSP asserts that any liability it faces lies with GreenPoint, alleging that DBSP's representations and warranties to AGM are substantially similar to the representations and warranties made by GreenPoint to DBSP. GreenPoint filed a motion to dismiss the complaint in October 2010, which the court denied on July 25, 2011. The parties are currently engaged in discovery.

On October 24, 2012, Capital One, N.A., ("CONA") as successor to Chevy Chase Bank, F.S.B. ("CCB"), was named as a defendant in a lawsuit filed in the Southern District of New York by Ambac Assurance Corporation and the Segregated Account of Ambac Assurance Corporation (the "Ambac Litigation"). Plaintiffs allege, among other things, that CONA (as successor to CCB) breached certain representations and warranties in contracts relating to six securitizations with an aggregate original principal balance of approximately \$5.2 billion which were sponsored by a CCB affiliate in 2006 and 2007 and backed by loans originated by CCB. Almost half of the securities issued by the six trusts are insured by Ambac. Plaintiffs seek unspecified damages, an order compelling CONA to indemnify Ambac for all accrued and future damages based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio, the repurchase of specific mortgage loans to which the alleged breaches of representations and warranties relate, and all related fees, costs, and interest. CONA moved to dismiss the complaint on January 14, 2013.

On May 30, June 29, and July 30, 2012, FHFA (acting as conservator for Freddie Mac) filed three summons with notice in the New York state court against GreenPoint, on behalf of the trustees for three RMBS trusts backed by 9,594 loans originated by GreenPoint with an aggregate original principal balance of \$3.4 billion. On January 25, 2013, the plaintiffs filed an amended consolidated complaint in the name of the three trusts, acting by the respective trustees, alleging breaches of contractual representations and warranties regarding compliance with



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**CAPITAL ONE FINANCIAL CORPORATION**

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

GreenPoint underwriting guidelines relating to 1,808 loans. (the LXS Trusts Litigation ). Plaintiffs seek specific performance of the repurchase obligations with respect to the loans for which they have provided notice of alleged breaches as well as all other allegedly breaching loans, rescissory damages, indemnification, costs and interest.

As noted above in the section entitled *Potential Mortgage Representation & Warranty Liabilities*, the Company's subsidiaries establish reserves with respect to representation and warranty litigation matters, where appropriate, within the Company's overall representation and warranty reserves. Please see above for more details.

***FHLB Securities Litigation***

On April 20, 2011, the Federal Home Loan Bank of Boston (the FHLB of Boston ) filed suit against dozens of mortgage industry participants in Massachusetts Superior Court, alleging, among other things, violations of Massachusetts state securities laws in the sale and marketing of certain residential mortgage-backed securities (the FHLB of Boston Litigation ). Capital One Financial Corporation and Capital One, National Association are named in the complaint as alleged successors in interest to Chevy Chase Bank, which allegedly marketed some of the mortgage-backed securities at issue in the litigation. The FHLB of Boston seeks rescission, unspecified damages, attorneys' fees, and other unspecified relief. The case was removed to the United States District Court for the District of Massachusetts in May 2011. FHLB of Boston filed an Amended Complaint on June 29, 2012, and the Company filed a motion to dismiss on October 11, 2012, which is pending.

***SEC Investigation***

Since July 2009, we have been providing documents and information in response to an inquiry by the Staff of the SEC. In the first quarter of 2010, the SEC issued a formal order of investigation with respect to this inquiry. Although the order, as is generally customary, authorized a broader inquiry by the Staff, the investigation focused largely on the loan loss reserves for our auto finance business for the second and third quarters of 2007. In April 2013, in order to resolve the investigation, the Company agreed to the entry of an Administrative Proceeding Order with the SEC in which the SEC found that the Company violated Sections 13(a) and 13(b) of the Exchange Act. The Company also agreed to pay \$3.5 million in penalties. The Order does not make any finding with respect to year-end 2007 loan loss reserves, nor does the resolution of the matter require a restatement of Capital One's financial results for any prior period.

***Checking Account Overdraft Litigation***

In May 2010, Capital One Financial Corporation and COBNA were named as defendants in a putative class action named *Steen v. Capital One Financial Corporation, et al.*, filed in the U.S. District Court for the Eastern District of Louisiana. Plaintiff challenges our practices relating to fees for overdraft and non-sufficient funds fees on consumer checking accounts. Plaintiff alleges that our methodology for posting transactions to customer accounts is designed to maximize the generation of overdraft fees, supporting claims for breach of contract, breach of the covenant of good faith and fair dealing, unconscionability, conversion, unjust enrichment and violations of state unfair trade practices laws. Plaintiff seeks a range of remedies, including restitution, disgorgement, injunctive relief, punitive damages and attorneys' fees. In May 2010, the case was transferred to the Southern District of Florida for coordinated pre-trial proceedings as part of a multi-district litigation (MDL) involving numerous defendant banks, *In re Checking Account Overdraft Litigation*. In January 2011, plaintiffs filed a second amended complaint against CONA in the MDL court. In February 2011, CONA filed a motion to dismiss the second amended complaint. On March 21, 2011, the MDL court granted CONA's motion to dismiss claims of breach of the covenant of good faith and fair dealing under Texas law, but denied the motion to dismiss in all other respects. The parties have been engaged in discovery since May, 2011. On June 21, 2012, the MDL

**Table of Contents****CAPITAL ONE FINANCIAL CORPORATION****NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED) (Continued)**

court granted plaintiff's motion for class certification. The modified scheduling order entered by the MDL court on April 1, 2013, contemplates the conclusion of discovery in the third quarter 2013 and we anticipate a remand to the Eastern District of Louisiana in the first quarter 2014.

***Hawaii, Mississippi, Missouri and New Mexico State Attorney General Payment Protection Matters***

On April 12, 2012, the Attorney General of Hawaii filed a lawsuit in First Circuit Court in Hawaii against Capital One Bank (USA) N.A., and Capital One Services, LLC. The case is one of several similar lawsuits filed by the Attorney General of Hawaii against various banks challenging the marketing and sale of payment protection and credit monitoring products. On June 28, 2012, the Attorney General of Mississippi filed substantially similar suits against Capital One and several other banks. On April 17, 2013, the Attorney General of New Mexico also filed substantially similar suits against Capital One and several other banks. All three state attorney general complaints allege that Capital One enrolls customers in such programs without their consent and that Capital One enrolls customers in such programs even in circumstances in which the customer is not eligible to receive benefits for the product in question. Both suits allege violations of its state Unfair and Deceptive Practices Act and unjust enrichment. The remedies sought in the lawsuits include an injunction prohibiting the Company from engaging in the alleged violations, restitution for all persons allegedly injured by the complained of practices, civil penalties and costs. On May 18, 2012, Capital One removed the Hawaii AG case to U.S. District Court, District of Hawaii. On November 30, 2012, the court denied the Hawaii AG's motion to remand. The Hawaii AG petitioned to appeal the District Court's decision to the Ninth Circuit Court of Appeals, which was granted by the Ninth Circuit on April 1, 2013. The District Court case is now stayed pending the parties' briefing and decision by the Ninth Circuit. On August 10, 2012 Capital One removed the Mississippi AG case to U.S. District Court, Southern District of Mississippi. The parties have briefed the Mississippi AG's motion to remand and await the court's decision. Capital One has not yet been served with the New Mexico AG lawsuit. Relatedly, Capital One has provided information to the Attorney General of Missouri as part of an industry-wide informal inquiry initiated in August, 2011, relating to the marketing of payment protection products.

***Derivative Actions***

On August 17, 2012, a derivative action, titled Iron Workers Mid-South Pension Fund v. Fairbank, et al., Case No. 2012 14130 (Iron Workers Action), was filed by a putative stockholder on behalf of the Company in Virginia Circuit Court of Fairfax County (hereafter Virginia Circuit Court) against certain current and former directors and officers of the Company, alleging breach of the fiduciary duty of loyalty, gross mismanagement, corporate waste, and unjust enrichment. The complaint's allegations stem from the Company's entering into consent orders with the Office of the Comptroller of the Currency and the Consumer Financial Protection Bureau regarding vendor sales practices of payment protection and credit monitoring products. Plaintiff shareholder generally alleges that the alleged failure of the Company's officers and directors to oversee certain practices between 2010 and early 2012 caused harm to the Company, which is named as a nominal defendant. The action includes claims for, among other things, damages in favor of the Company, certain corporate actions to purportedly improve the Company's corporate governance and internal procedures, and an award of costs and expenses to the putative plaintiff stockholder, including attorneys' fees. On September 19, 2012, a second derivative complaint, titled Barovic v. Fairbank, et al., Case No. 2012 14130, was filed by another putative stockholder on behalf of the Company also in the Virginia Circuit Court. The Barovic derivative complaint is substantially identical to the Iron Workers Action (collectively Derivative Actions). The defendants removed the Derivative Actions from Virginia Circuit Court to the U. S. District Court for the Eastern District of Virginia and filed a motion to dismiss the complaints. The plaintiffs moved to remand the cases back to Virginia Circuit Court. On November 30, 2012, the court denied the motions to remand and took the motions to dismiss under advisement.

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**CAPITAL ONE FINANCIAL CORPORATION**

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

***Other Pending and Threatened Litigation***

In addition, we are commonly subject to various pending and threatened legal actions relating to the conduct of our normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of all such other pending or threatened legal actions will not be material to our consolidated financial position or our results of operations.

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### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For a discussion of the quantitative and qualitative disclosures about market risk, see Part I Item 2. MD&A Market Risk Management.

### **Item 4. Controls and Procedures**

#### **Overview**

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

#### **(a) Disclosure Controls and Procedures**

##### *Disclosure Controls and Procedures*

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our financial reports is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in evaluating and implementing possible controls and procedures.

##### *Evaluation of Disclosure Controls and Procedures*

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (the Exchange Act), our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2013, the end of the period covered by this Report. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2013, at a reasonable level of assurance, in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified by the SEC rules and forms.

#### **(b) Changes in Internal Control Over Financial Reporting**

We regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. During the first quarter of 2013, we continued to evaluate and implement changes to processes, information technology systems and other components of internal control over financial reporting related to the ING Direct and 2012 U.S. card acquisitions. Significant changes during the quarter included the migration of the ING Direct home loan portfolios to our servicing systems and the transition of data center support services related to the 2012 U.S. card acquisition from HSBC to us. Otherwise, there were no changes in our internal control over financial reporting during the first quarter of 2013 which have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

**Table of Contents****PART II OTHER INFORMATION****Item 1. Legal Proceedings**

The information required by Item 1 is included in Notes to the Consolidated Financial Statements Note 14 Commitments, Contingencies and Guarantees.

**Item 1A. Risk Factors**

We are not aware of any material changes from the risk factors set forth under Part I Item 1A. Risk Factors in our 2012 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table shows shares of our common stock we repurchased during the first quarter of 2013:

| (Dollars in millions, except per share information) | Total<br>Number<br>of<br>Shares<br>Purchased <sup>(1)</sup> | Average<br>Price Paid<br>per Share | Total Number of<br>Shares Purchased as<br>Part of<br>Publicly<br>Announced<br>Plans | Maximum<br>Amount That May<br>Yet be<br>Purchased<br>Under the Plan<br>or Program |
|---|---|------------------------------------|---|---|
| January 1-31, 2013                                  | 217,146   | \$ 56.50                           |   | \$  |
| February 1-28, 2013                                 | 174,988   | 57.12                              |   |   |
| March 1-31, 2013                                    | 106,732   | 55.06                              |   |   |
| Total   | 498,866   | \$ 56.41                           |   |   |

<sup>(1)</sup> Shares purchased represent shares purchased and share swaps made in connection with stock option exercises and the withholding of shares to cover taxes on restricted stock lapses.

**Item 3. Defaults upon Senior Securities**

None.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

An index to exhibits has been filed as part of this report beginning on page 154 and is incorporated herein by reference.

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**SIGNATURES**

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

**CAPITAL ONE FINANCIAL CORPORATION**

Date: May 9, 2013

By: /s/ GARY L. PERLIN  
Gary L. Perlin  
Chief Financial Officer

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**EXHIBIT INDEX**

**CAPITAL ONE FINANCIAL CORPORATION**

**QUARTERLY REPORT ON FORM 10-Q**

**DATED MARCH 31, 2013**

**Commission File No. 1-13300**

The following exhibits are incorporated by reference or filed herewith. References to (i) the 2003 Form 10-K are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; (ii) the 2004 Form 10-K are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2004, filed on March 9, 2005; (iii) the 2008 Form 10-K are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2008, filed on February 26, 2009; and (iv) the 2011 Form 10-K are to the Corporation's Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 29, 2012.

| <b>Exhibit No.</b> | <b>Description</b>   |
|--------------------|--|
| 2.1                | Stock Purchase Agreement, dated as of December 3, 2008, by and among Capital One Financial Corporation, B.F. Saul Real Estate Investment Trust, Derwood Investment Corporation, and B.F. Saul Company Employee's Profit Sharing and Retirement Trust (incorporated by reference to Exhibit 2.4 of the Corporation's 2008 Form 10-K). |
| 2.2.1              | Purchase and Sale Agreement, dated as of June 16, 2011, by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (incorporated by reference to Exhibit 2.1 of the Corporation's Current Report on Form 8-K, filed on June 22, 2011).                                    |
| 2.2.2              | First Amendment to the Purchase and Sale Agreement by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp, dated as of February 17, 2012 (incorporated by reference to Exhibit 2.2.2 of the Corporation's 2011 Form 10-K).  |
| 2.3.1              | Purchase and Assumption Agreement, dated as of August 10, 2011, by and among Capital One Financial Corporation, HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (incorporated by reference to Exhibit 2.1 of the Corporation's Current Report on Form-8-K, filed on August 12, 2011).            |
| 2.3.2              | Purchaser Transition Services Agreement between HSBC Technology and Services (USA) Inc. and Capital One Services, LLC, dated as of May 1, 2012 (incorporated by reference to Exhibit 10.1 of the Corporation's Quarterly Report on Form 10-Q for the period ended June 30, 2012).  |
| 3.1                | Restated Certificate of Incorporation of Capital One Financial Corporation, (as amended and restated May 16, 2011) (incorporated by reference to Exhibit 3.4 of the Corporation's Current Report on Form 8-K, filed on May 17, 2011).  |
| 3.2                | Amended and Restated Bylaws of Capital One Financial Corporation (incorporated by reference to Exhibit 3.2 of the Corporation's Current Report on Form 8-K, filed on May 17, 2011).  |
| 3.3                | Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, dated August 16, 2012 (incorporated by reference to Exhibit 3.1 of the Corporation's Current Report on Form 8-K on August 20, 2012).   |
| 4.1.1              | Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's 2003 Form 10-K).  |
| 4.1.2              | Warrant Agreement, dated December 3, 2009, between Capital One Financial Corporation and Computershare Trust Company, N.A. (incorporated by reference to the Exhibit 4.1 of the Corporation's Form 8-A filed on December 4, 2009).   |

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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 4.1.3              | Deposit Agreement, dated August 20, 2012 (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K filed on August 20, 2012).   |
| 4.2.1              | Senior Indenture dated as of November 1, 1996 between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., formerly known as The Bank of New York Trust Company, N.A. (as successor to Harris Trust and Savings Bank), as trustee (incorporated by reference to Exhibit 4.1 of the Corporation's Report on Form 8-K, filed on November 13, 1996). |
| 4.2.2              | Copy of 6.25% Notes, due 2013, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.5 of the 2003 Form 10-K).   |
| 4.2.3              | Copy of 5.25% Notes, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5.6 of the 2004 Form 10-K).   |
| 4.2.4              | Copy of 5.50% Senior Notes, due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Quarterly Report on Form 10-Q for the period ending June 30, 2005).   |
| 4.2.5              | Specimen of 6.750% Senior Note, due 2017, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Report on Form 8-K, filed on September 5, 2007).  |
| 4.2.6              | Specimen of 7.375% Senior Note, due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the Corporation's Report on Form 8-K, filed on May 22, 2009).   |
| 4.2.7              | Specimen of Floating Rate Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).  |
| 4.2.8              | Specimen of 2.125% Senior Note due 2014, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.4 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).   |
| 4.2.9              | Specimen of 3.150% Senior Note due 2016, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.5 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).   |
| 4.2.10             | Specimen of 4.750% Senior Note due 2021, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.6 of the Corporation's Current Report on Form 8-K, filed on July 19, 2011).   |
| 4.2.11             | Specimen of Floating Rate Senior Note due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on November 6, 2012).   |
| 4.2.12             | Specimen of 1.000% Senior Note due 2015, of Capital One Financial Corporation (incorporated by reference to Exhibit 4.3 of the Corporation's Current Report on Form 8-K, filed on November 6, 2012).  |
| 4.3.1              | Indenture, dated as of August 29, 2006, between Capital One Financial Corporation and The Bank of New York Mellon Trust Company, N.A., as indenture trustee (incorporated by reference to Exhibit 4.1 of the Corporation's Current Report on Form 8-K, filed on August 31, 2006).   |
| 4.3.2              | Copy of Subordinated Note Certificate (incorporated by reference to Exhibit 4.2 of the Corporation's Current Report on Form 8-K, filed on August 31, 2006).   |



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| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 10.1*              | Special Agreement and Release by and between Capital One Financial Corporation and Gary L. Perlin dated February 1, 2013. |
| 12.1*              | Computation of Ratio of Earnings to Fixed Charges.  |
| 12.2*              | Computation of Ratio of Earnings to Combined Fixed Charges and Preferred Stock Dividends.                                 |
| 31.1*              | Certification of Richard D. Fairbank.   |
| 31.2*              | Certification of Gary L. Perlin.  |
| 32.1*              | Certification** of Richard D. Fairbank.   |
| 32.2*              | Certification** of Gary L. Perlin.  |
| 101.INS*           | XBRL Instance Document.   |
| 101.SCH*           | XBRL Taxonomy Extension Schema Document.  |
| 101.CAL*           | XBRL Taxonomy Extension Calculation Linkbase Document.  |
| 101.DEF*           | XBRL Taxonomy Extension Definition Linkbase Document.   |
| 101.LAB*           | XBRL Taxonomy Extension Label Linkbase Document.  |
| 101.PRE*           | XBRL Taxonomy Extension Presentation Linkbase Document.   |

\* Indicates a document being filed with this Form 10-Q.

\*\* Information in this Form 10-Q furnished herewith shall not be deemed to be filed for the purposes of Section 18 of the 1934 Act or otherwise subject to the liabilities of that section.