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

# FORM 10-Q

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

**For the quarterly period ended June 30, 2015**

**OR**

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

**For the transition period from ______ to ______**
**Commission File No. 1-13300**

# CAPITAL ONE FINANCIAL CORPORATION

**(Exact name of registrant as specified in its charter)**

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

**Registrant's telephone number, including area code: (703) 720-1000**
**(Former name, former address and former fiscal year, if changed since last report)**
**(Not applicable)**

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ☒ 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 July 31, 2015, there were 542,428,939 shares of the registrant's Common Stock, par value $.01 per share, outstanding.

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## PART I—FINANCIAL INFORMATION

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

*This discussion contains forward-looking statements that are based upon management's current expectations and are subject to significant uncertainties and changes in circumstances. Please review "Forward-Looking Statements" for more information on the forward-looking statements in this Quarterly Report on Form 10-Q ("this Report"). Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in "Part II—Item 1A. Risk Factors" in this Report and in "Part I—Item 1A. Risk Factors" in our 2014 Annual Report on Form 10-K ("2014 Form 10-K"). Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our unaudited consolidated financial statements as of June 30, 2015 included in this Report.*

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

### INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of June 30, 2015, our principal subsidiaries included:

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

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

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

We had total loans held for investment of $209.7 billion, deposits of $208.8 billion and stockholders' equity of $46.7 billion as of June 30, 2015, compared to total loans held for investment of $208.3 billion, deposits of $205.5 billion and stockholders' equity of $45.1 billion as of December 31, 2014.

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

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

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

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

- *Commercial Banking:* Consists of our lending, deposit gathering and servicing activities provided to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between $10 million and $1 billion.

**Recent Acquisitions and Dispositions**

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

## SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the second quarter and first six months of 2015 and 2014, and selected comparative balance sheet data as of June 30, 2015 and December 31, 2014. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been recast to conform to the current period presentation.

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

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions, except per share data and as noted)* | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| **Income statement** | | | | | | |
| Net interest income | **$ 4,537** | $ 4,315 | 5% | **$ 9,113** | $ 8,665 | 5% |
| Non-interest income | **1,135** | 1,153 | (2) | **2,206** | 2,173 | 2 |
| Total net revenue | **5,672** | 5,468 | 4 | **11,319** | 10,838 | 4 |
| Provision for credit losses | **1,129** | 704 | 60 | **2,064** | 1,439 | 43 |
| Non-interest expense: | | | | | | |
| Marketing | **387** | 335 | 16 | **762** | 660 | 15 |
| Amortization of intangibles | **111** | 136 | (18) | **221** | 279 | (21) |
| Operating expenses[2] | **2,809** | 2,508 | 12 | **5,373** | 4,972 | 8 |
| Total non-interest expense | **3,307** | 2,979 | 11 | **6,356** | 5,911 | 8 |
| Income from continuing operations before income taxes | **1,236** | 1,785 | (31) | **2,899** | 3,488 | (17) |
| Income tax provision | **384** | 581 | (34) | **913** | 1,160 | (21) |
| Income from continuing operations, net of tax | **852** | 1,204 | (29) | **1,986** | 2,328 | (15) |
| Income (loss) from discontinued operations, net of tax | **11** | (10) | ** | **30** | 20 | 50 |
| Net income | **863** | 1,194 | (28) | **2,016** | 2,348 | (14) |
| Dividends and undistributed earnings allocated to participating securities | **(4)** | (4) | — | **(10)** | (9) | 11 |
| Preferred stock dividends | **(29)** | (13) | 123 | **(61)** | (26) | 135 |
| Net income available to common stockholders | **$ 830** | $ 1,177 | (29) | **$ 1,945** | $ 2,313 | (16) |
| **Common share statistics** | | | | | | |
| Basic earnings per common share: | | | | | | |
| Net income from continuing operations | **$ 1.50** | $ 2.09 | (28)% | **$ 3.49** | $ 4.03 | (13)% |
| Income (loss) from discontinued operations | **0.02** | (0.02) | ** | **0.06** | 0.03 | 100 |
| Net income per basic common share | **$ 1.52** | $ 2.07 | (27) | **$ 3.55** | $ 4.06 | (13) |
| Diluted earnings per common share: | | | | | | |
| Net income from continuing operations | **$ 1.48** | $ 2.06 | (28) | **$ 3.45** | $ 3.97 | (13) |
| Income (loss) from discontinued operations | **0.02** | (0.02) | ** | **0.06** | 0.03 | 100 |
| Net income per diluted common share | **$ 1.50** | $ 2.04 | (26) | **$ 3.51** | $ 4.00 | (12) |
| Weighted-average common shares outstanding (in millions): | | | | | | |
| Basic | 545.6 | 567.5 | (4) | **548.0** | 569.2 | (4) |
| Diluted | 552.0 | 577.6 | (4) | 554.7 | 578.9 | (4) |
| Common shares outstanding (period end, in millions) | **542.5** | 561.8 | (3) | **542.5** | 561.8 | (3) |
| Dividends paid per common share | **$ 0.40** | $ 0.30 | 33 | **$ 0.70** | $ 0.60 | 17 |
| Tangible book value per common share (period end) | **52.74** | 47.90 | 10 | **52.74** | 47.90 | 10 |
| **Balance sheet (average balances)** | | | | | | |
| Loans held for investment | **$ 206,337** | $ 194,996 | 6% | **$ 205,768** | $ 194,362 | 6% |
| Interest-earning assets | **276,585** | 263,570 | 5 | **277,501** | 263,119 | 5 |
| Total assets | **307,206** | 294,089 | 4 | **308,295** | 293,798 | 5 |
| Interest-bearing deposits | **183,946** | 182,053 | 1 | **183,475** | 182,431 | 1 |
| Total deposits | **209,143** | 206,315 | 1 | **208,501** | 206,080 | 1 |
| Borrowings | **41,650** | 35,658 | 17 | **43,854** | 35,817 | 22 |
| Common equity | **44,878** | 42,797 | 5 | **44,727** | 42,408 | 5 |
| Total stockholders' equity | **47,255** | 43,767 | 8 | **46,828** | 43,320 | 8 |

| *(Dollars in millions, except per share data and as noted)* | Three Months Ended June 30, 2015 | Three Months Ended June 30, 2014 | Change | Six Months Ended June 30, 2015 | Six Months Ended June 30, 2014 | Change |
|---|---|---|---|---|---|---|
| **Selected performance metrics** | | | | | | |
| Purchase volume[3] | **$ 68,559** | $ 56,358 | 22% | **$ 125,942** | $ 103,792 | 21% |
| Total net revenue margin[4] | **8.20%** | 8.30% | (10)bps | **8.16%** | 8.24% | (8)bps |
| Net interest margin[5] | **6.56** | 6.55 | 1 | **6.57** | 6.59 | (2) |
| Return on average assets | **1.11** | 1.64 | (53) | **1.29** | 1.58 | (29) |
| Return on average tangible assets[6] | **1.17** | 1.73 | (56) | **1.36** | 1.67 | (31) |
| Return on average common equity[7] | **7.30** | 11.09 | (379) | **8.56** | 10.81 | (225) |
| Return on average tangible common equity[8] | **11.06** | 17.47 | (641) | **13.01** | 17.15 | (414) |
| Equity-to-assets ratio | **15.38** | 14.88 | 50 | **15.19** | 14.74 | 45 |
| Non-interest expense as a percentage of average loans held for investment[9] | **6.41** | 6.11 | 30 | **6.18** | 6.08 | 10 |
| Efficiency ratio[10] | **58.30** | 54.48 | 382 | **56.15** | 54.54 | 161 |
| Effective income tax rate from continuing operations | **31.1** | 32.5 | (140) | **31.5** | 33.3 | (180) |
| Net charge-offs | **$ 846** | $ 812 | 4% | **$ 1,727** | $ 1,743 | (1)% |
| Net charge-off rate[11] | **1.64%** | 1.67% | (3)bps | **1.68%** | 1.79% | (11)bps |
| Net charge-off rate (excluding Acquired Loans)[12] | **1.83** | 1.93 | (10) | **1.88** | 2.08 | (20) |

| *(Dollars in millions, except as noted)* | June 30, 2015 | December 31, 2014 | Change |
|---|---|---|---|
| **Balance sheet (period end)** | | | |
| Loans held for investment | **$ 209,705** | $ 208,316 | 1% |
| Interest-earning assets | **280,137** | 277,849 | 1 |
| Total assets | **310,510** | 308,167 | 1 |
| Interest-bearing deposits | **183,657** | 180,467 | 2 |
| Total deposits | **208,780** | 205,548 | 2 |
| Borrowings | **45,766** | 48,457 | (6) |
| Common equity | **43,849** | 43,231 | 1 |
| Total stockholders' equity | **46,659** | 45,053 | 4 |
| **Credit quality metrics (period end)** | | | |
| Allowance for loan and lease losses | **$ 4,676** | $ 4,383 | 7% |
| Allowance as a percentage of loans held for investment ("allowance coverage ratio") | **2.23%** | 2.10% | 13bps |
| Allowance as a percentage of loans held for investment (excluding Acquired Loans)[12] | **2.46** | 2.36 | 10 |
| 30+ day performing delinquency rate | **2.33** | 2.62 | (29) |
| 30+ day performing delinquency rate (excluding Acquired Loans)[12] | **2.59** | 2.95 | (36) |
| 30+ day delinquency rate | **2.65** | 2.91 | (26) |
| 30+ day delinquency rate (excluding Acquired Loans)[12] | **2.94** | 3.28 | (34) |
| **Capital ratios** | | | |
| Common equity Tier 1 capital ratio | **12.1%** | 12.5% | (40)bps |
| Tier 1 risk-based capital ratio | **13.3** | 13.2 | 10 |
| Total risk-based capital ratio | **15.1** | 15.1 | — |
| Tier 1 leverage ratio | **11.1** | 10.8 | 30 |
| Tangible common equity ratio[13] | **9.7** | 9.5 | 20 |
| Supplementary leverage ratio[14] | **9.6** | N/A | ** |
| **Others** | | | |
| Employees (in thousands), period end | **47.5** | 46.0 | 3% |

** Change is not meaningful.

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

(2) Includes acquisition-related costs of $8 million and $15 million in the second quarter and first six months of 2015, respectively, and $18 million and $41 million in the second quarter and first six months of 2014, respectively. Acquisition-related costs include transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

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

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

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

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

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

(8) Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average TCE. Our calculation of return on average TCE may not be comparable to similarly titled measures reported by other companies. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information.

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

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

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

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

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

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

## EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of $863 million ($1.50 per diluted common share) on total net revenue of $5.7 billion and net income of $2.0 billion ($3.51 per diluted common share) on total net revenue of $11.3 billion for the second quarter and first six months of 2015, respectively. In comparison, we reported net income of $1.2 billion ($2.04 per diluted common share) on total net revenue of $5.5 billion and net income of $2.3 billion ($4.00 per diluted common share) on total net revenue of $10.8 billion for the second quarter and first six months of 2014, respectively.

Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 12.1% and 12.5% as of June 30, 2015 and December 31, 2014, respectively. We formally entered parallel run for Basel III Advanced Approaches on January 1, 2015. See “Capital Management” below for additional information.

On March 11, 2015, we announced that our Board of Directors authorized the repurchase of up to $3.125 billion of shares of our common stock (the “2015 Stock Repurchase Program”). Through the end of the second quarter of 2015, we repurchased approximately $625 million of common stock and expect to complete the 2015 Stock Repurchase Program by the end of the second quarter of 2016. See “Capital Management” below for additional information.

Below are additional highlights of our performance in the second quarter and first six months of 2015. These highlights are generally based on a comparison between the results of the second quarter and first six months of 2015 and 2014, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of June 30, 2015, compared to our financial condition and credit performance as of December 31, 2014. We provide a more detailed discussion of our financial performance in the sections following this “Executive Summary and Business Outlook.”

***Total Company***

- *Earnings:* Our net income decreased by $331 million, or 28%, to $863 million in the second quarter of 2015, compared to the second quarter of 2014, and decreased by $332 million, or 14%, to $2.0 billion in the first six months of 2015, compared to the first six months of 2014. The decreases in net income from continuing operations were driven by (i) an increase in the provision for credit losses due to the change to an allowance build in the second quarter and first six months of 2015 from an allowance release in the second quarter and first six months of 2014; and (ii) an increase in non-interest expense driven by higher operating and marketing expenses associated with loan growth, and continued technology and infrastructure investments. We recorded restructuring charges of $157 million for severance and related benefits pursuant to our ongoing benefit programs, which included $147 million as a result of the realignment of our workforce, and a $78 million build in the U.K. Payment Protection Insurance customer refund reserve (“U.K. PPI Reserve”), reflecting our updated estimate of future complaint levels. These decreases were partially offset by (i) higher interest income due to growth in our credit card, auto and commercial loan portfolios partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase in non-interest income primarily attributable to higher net interchange fees partially offset by lower customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business. The increase in net income from discontinued operations was primarily driven by a reduction in our mortgage representation and warranty reserve in the second quarter of 2015 resulting from favorable industry legal developments.

- *Loans Held for Investment:* Period-end loans held for investment increased by $1.4 billion to $209.7 billion as of June 30, 2015 from December 31, 2014, primarily driven by loan growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio and the expected seasonal paydowns in our credit card loan portfolio. Average loans held for investment increased by $11.3 billion to $206.3 billion in the second quarter of 2015, compared to the second quarter of 2014, and increased by $11.4 billion to $205.8 billion in the first six months of 2015, compared to the first six months of 2014, primarily due to continued growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio.

- *Net Charge-off and Delinquency Statistics:* Our net charge-off rate decreased by 3 basis points to 1.64% in the second quarter of 2015, compared to the second quarter of 2014. Our net charge-off rate decreased by 11 basis points to 1.68%, in the first six months of 2015, compared to the first six months of 2014, primarily due to higher average loan balances. Net charge-off rates remained low compared to our historic trends due to economic improvement and portfolio seasoning in our credit card loan portfolio. Our 30+ day delinquency rate decreased by 26 basis points to 2.65% as of June 30, 2015, from 2.91% as of December 31, 2014, primarily due to seasonally lower delinquency inventories. We provide additional information on our credit quality metrics below under “Business Segment Financial Performance” and “Credit Risk Profile.”

- *Allowance for Loan and Lease Losses:* Our allowance for loan and lease losses increased by $293 million to $4.7 billion as of June 30, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by continued loan growth in our domestic credit card and auto loan portfolios, higher loss expectations on recent auto loan originations as well as adverse market conditions impacting certain oil and gas portfolios and certain components of our transportation loan portfolio within our Commercial Banking business. These factors also contributed to a higher allowance coverage ratio, which increased by 13 basis points to 2.23% as of June 30, 2015 from December 31, 2014.

- *Representation and Warranty Reserve:* The mortgage representation and warranty reserve decreased by $95 million, or 13%, to $636 million as of June 30, 2015 from December 31, 2014. The decrease in the representation and warranty reserve was primarily driven by settlements and favorable industry legal developments. We recorded a benefit for mortgage representation and warranty losses of $54 million (which includes a benefit of $8 million before taxes in continuing operations and a benefit of $46 million before taxes in discontinued operations) in the first six months of 2015.

***Business Segment Financial Performance***

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

**Table 2: Business Segment Results**

| | Three Months Ended June 30, | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | 2014 | | | |
| | Total Net Revenue[1] | | Net Income (Loss)[2] | | Total Net Revenue[1] | | Net Income (Loss)[2] | |
| *(Dollars in millions)* | Amount | % of Total | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| Credit Card | **$ 3,478** | **61%** | **$ 463** | **55%** | $ 3,300 | 61% | $ 668 | 55% |
| Consumer Banking | **1,640** | **29** | **291** | **34** | 1,601 | 29 | 334 | 28 |
| Commercial Banking[3] | **589** | **11** | **172** | **20** | 545 | 10 | 171 | 14 |
| Other[4] | **(35)** | **(1)** | **(74)** | **(9)** | 22 | — | 31 | 3 |
| Total from continuing operations | **$ 5,672** | **100 %** | **$ 852** | **100%** | $ 5,468 | 100% | $ 1,204 | 100% |

| | Six Months Ended June 30, | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 2015 | | | | | | 2014 | | | | | |
| | Total Net Revenue[1] | | | Net Income (Loss)[2] | | | Total Net Revenue[1] | | | Net Income (Loss)[2] | | |
| *(Dollars in millions)* | | Amount | % of Total | | Amount | % of Total | | Amount | % of Total | | Amount | % of Total |
| Credit Card | $ | **6,960** | **61 %** | $ | **1,131** | **57 %** | $ | 6,610 | 61% | $ | 1,336 | 57% |
| Consumer Banking | | **3,232** | **29** | | **557** | **28** | | 3,184 | 29 | | 664 | 29 |
| Commercial Banking[3] | | **1,164** | **10** | | **327** | **16** | | 1,053 | 10 | | 308 | 13 |
| Other[4] | | **(37)** | **—** | | **(29)** | **(1)** | | (9) | — | | 20 | 1 |
| Total from continuing operations | $ | **11,319** | **100 %** | $ | **1,986** | **100 %** | $ | 10,838 | 100% | $ | 2,328 | 100% |

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

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

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

(4) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expense that do not directly support the operations of the business segments and other items as described in “Note 19—Business Segments” in our 2014 Form 10-K.

*Credit Card:* Our Credit Card business generated net income from continuing operations of $463 million and $1.1 billion in the second quarter and first six months of 2015, respectively, compared to net income from continuing operations of $668 million and $1.3 billion in the second quarter and first six months of 2014, respectively. The decrease in net income was due to a higher provision for credit losses and higher non-interest expense, which were partially offset by (i) higher net interest income primarily driven by loan growth; and (ii) higher non-interest income attributable to an increase in net interchange fees partially offset by lower customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business. Period-end loans held for investment in our Credit Card business increased by $1.3 billion to $87.2 billion as of June 30, 2015 from December 31, 2014, primarily due to loan growth in the Domestic Card business, partially offset by expected seasonal paydowns.

*Consumer Banking:* Our Consumer Banking business generated net income from continuing operations of $291 million and $557 million in the second quarter and first six months of 2015, respectively, compared to net income from continuing operations of $334 million and $664 million in the second quarter and first six months of 2014, respectively. The decrease in net income was primarily attributable to a higher provision for credit losses due to an allowance build and higher net charge-offs in our auto loan portfolio, as well as higher non-interest expense largely driven by increases in technology and infrastructure spending in our retail banking business and operating expenses due to growth in our auto loan portfolio. The decrease was partially offset by higher net interest income generated by growth in our auto loan portfolio partially offset by the planned run-off of the acquired home loan portfolio. Period-end loans held for investment in our Consumer Banking business decreased by $263 million to $71.2 billion as of June 30, 2015 from December 31, 2014, primarily due to the planned run-off of our acquired home loan portfolio, partially offset by the growth in the auto loan portfolio.

*Commercial Banking:* Our Commercial Banking business generated net income from continuing operations of $172 million and $327 million in the second quarter and first six months of 2015, respectively, compared to net income from continuing operations of $171 million and $308 million in the second quarter and first six months of 2014, respectively. The increase in net income was primarily due to higher net revenue driven by an increase in our average commercial loan portfolio, as well as increased fee-based services and products, partially offset by a larger provision for credit losses. Period-end loans held for investment in our Commercial Banking business increased by $341 million to $51.2 billion as of June 30, 2015 from December 31, 2014, driven by loan growth in the commercial and industrial and commercial and multifamily real estate businesses.

**Business Outlook**

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Report. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in "Part I—Item 1. Business" and "Part I—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" in our 2014 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Except as otherwise disclosed, forward-looking statements do not reflect: (i) any change in current dividend or repurchase strategies; (ii) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See "Forward-Looking Statements" in this Report for more information on forward-looking statements included in this Report and "Part I—Item 1A. Risk Factors" in our 2014 Form 10-K for factors that could materially influence our results.

***Total Company Expectations***

We delivered attractive risk-adjusted returns in the second quarter of 2015, highlighted by strong growth in our Domestic Card business. We expect the full-year 2015 efficiency ratio to be around 55%, excluding non-recurring items. We do not expect much improvement in the full-year 2016 efficiency ratio relative to 2015. Over the near-term, we believe we are positioned to deliver financial results that we expect will reflect strong revenue growth driven by growth in loans, partially offset by the planned run-off of the acquired home loan portfolio, pre-provision earnings growth more or less in line with revenue growth, higher provision for credit losses putting downward pressure on net income, and significant capital distribution, subject to regulatory approval, with share repurchases reducing share count and aiding earnings per share.

Pursuant to our approved 2015 capital plan, we increased our quarterly common stock dividend from $0.30 per share to $0.40 per share starting in the second quarter of 2015. We also expect to repurchase up to $3.125 billion of shares of our common stock pursuant to the 2015 Stock Repurchase Program beginning in the second quarter of 2015 through the second quarter of 2016. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, opportunities for growth, and our capital position and amount of retained earnings. The 2015 Stock Repurchase Program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See "MD&A—Capital Management—Dividend Policy and Stock Purchases" for more information.

***Business Segment Expectations***

Credit Card: In our Domestic Card business, we expect the quarterly charge-off rates to be around 3% at the third quarter seasonal low point. Longer term, as new loan balances season, we expect this growth to put upward pressure on the charge-off rate. We expect growth to drive the quarterly charge-off rate into the mid-to-high three percent range in the fourth quarter and higher from there in 2016. In addition, we expect loan growth and our expectation for rising charge-off rates to drive allowance additions going forward.

Consumer Banking: In our Consumer Banking business, we expect persistently low interest rates will continue to pressure returns in our deposit businesses, even if rates begin to rise in 2015. We expect planned run-off in our acquired home loan portfolio. We expect slower auto loan growth and revenue margin compression in our auto business. We expect all of these factors to have a negative impact on our revenues and efficiency ratio in the second half of 2015 and in 2016.

Commercial Banking: Growth in our Commercial Banking business is slowing compared to prior periods because of actions we are taking in response to market conditions.

## CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses on the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K.

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

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

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

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

## ACCOUNTING CHANGES AND DEVELOPMENTS

***Accounting for Derivative Assets and Liabilities***

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

## CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the second quarter and first six months of 2015 and 2014. Following this section, we provide a discussion of our business segment results. You should read this section together with our "Executive Summary and Business Outlook" where we discuss trends and other factors that we expect will affect our future results of operations.

**Net Interest Income**

Net interest income represents the difference between the interest income, including certain fees, earned on our interest-earning assets and the interest expense on our interest-bearing liabilities. Interest-earning assets include loans, investment securities and other interest-earning assets and interest-bearing liabilities include interest-bearing deposits, securitized debt obligations, senior and subordinated notes, and other borrowings. Generally, we include in interest income any past due fees on loans that we deem collectible. Our net interest margin, based on our consolidated results, represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and 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, interest expense incurred, average yield and rate for the second quarter and first six months of 2015 and 2014.

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

| | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| *(Dollars in millions)* | Average Balance | Interest Income/ Expense[2][3] | Yield/ Rate | Average Balance | Interest Income/ Expense[2][3] | Yield/ Rate |
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans: | | | | | | |
| Credit card: | | | | | | |
| Domestic credit card | **$ 76,088** | **$ 2,648** | **13.92%** | $ 69,366 | $ 2,419 | 13.95% |
| International credit card | **7,977** | **285** | **14.29** | 7,621 | 318 | 16.69 |
| Total credit card | **84,065** | **2,933** | **13.96** | 76,987 | 2,737 | 14.22 |
| Consumer banking | **71,618** | **1,122** | **6.27** | 71,049 | 1,103 | 6.21 |
| Commercial banking | **51,549** | **419** | **3.25** | 47,152 | 412 | 3.50 |
| Other | **103** | **57** | **221.36** | 134 | 27 | 80.60 |
| Total loans, including loans held for sale | **207,335** | **4,531** | **8.74** | 195,322 | 4,279 | 8.76 |
| Investment securities | **63,771** | **382** | **2.40** | 62,518 | 409 | 2.62 |
| Cash equivalents and other interest-earning assets | **5,479** | **24** | **1.75** | 5,730 | 24 | 1.68 |
| Total interest-earning assets | **$ 276,585** | **$ 4,937** | **7.14** | $ 263,570 | $ 4,712 | 7.15 |
| Cash and due from banks | **2,839** | | | 2,871 | | |
| Allowance for loan and lease losses | **(4,412)** | | | (4,099) | | |
| Premises and equipment, net | **3,714** | | | 3,808 | | |
| Other assets | **28,480** | | | 27,939 | | |
| Total assets | **$ 307,206** | | | $ 294,089 | | |
| **Liabilities and stockholders' equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits | **$ 183,946** | **$ 272** | **0.59** | $ 182,053 | $ 272 | 0.60 |
| Securitized debt obligations | **13,219** | **36** | **1.09** | 10,731 | 39 | 1.45 |
| Senior and subordinated notes | **20,336** | **80** | **1.57** | 16,004 | 78 | 1.95 |
| Other borrowings and liabilities | **8,857** | **12** | **0.54** | 8,923 | 8 | 0.36 |
| Total interest-bearing liabilities | **$ 226,358** | **$ 400** | **0.71** | $ 217,711 | $ 397 | 0.73 |
| Non-interest bearing deposits | **25,197** | | | 24,262 | | |
| Other liabilities | **8,396** | | | 8,349 | | |
| Total liabilities | **259,951** | | | 250,322 | | |
| Stockholders' equity | **47,255** | | | 43,767 | | |
| Total liabilities and stockholders' equity | **$ 307,206** | | | $ 294,089 | | |
| Net interest income/spread | | **$ 4,537** | **6.43** | | $ 4,315 | 6.42 |
| Impact of non-interest bearing funding | | | **0.13** | | | 0.13 |
| Net interest margin | | | **6.56%** | | | 6.55% |

| (Dollars in millions) | Six Months Ended June 30, 2015 Average Balance | 2015 Interest Income/ Expense[2][3] | 2015 Yield/ Rate | 2014 Average Balance | 2014 Interest Income/ Expense[2][3] | 2014 Yield/ Rate |
|---|---|---|---|---|---|---|
| **Assets:** | | | | | | |
| Interest-earning assets: | | | | | | |
| Loans: | | | | | | |
| Credit card: | | | | | | |
| Domestic credit card | **$ 75,484** | **$ 5,308** | **14.06%** | $ 69,582 | $ 4,896 | 14.07% |
| International credit card | **7,895** | **576** | **14.59** | 7,655 | 638 | 16.67 |
| Total credit card | **83,379** | **5,884** | **14.11** | 77,237 | 5,534 | 14.33 |
| Consumer banking | **71,607** | **2,241** | **6.26** | 70,943 | 2,197 | 6.19 |
| Commercial banking | **51,505** | **834** | **3.24** | 46,361 | 807 | 3.48 |
| Other | **107** | **112** | **209.35** | 133 | 48 | 72.18 |
| Total loans, including loans held for sale | **206,598** | **9,071** | **8.78** | 194,674 | 8,586 | 8.82 |
| Investment securities | **63,477** | **788** | **2.48** | 62,322 | 825 | 2.65 |
| Cash equivalents and other interest-earning assets | **7,426** | **52** | **1.40** | 6,123 | 54 | 1.76 |
| Total interest-earning assets | **$ 277,501** | **$ 9,911** | **7.14** | $ 263,119 | $ 9,465 | 7.19 |
| Cash and due from banks | **2,965** | | | 2,849 | | |
| Allowance for loan and lease losses | **(4,391)** | | | (4,202) | | |
| Premises and equipment, net | **3,708** | | | 3,823 | | |
| Other assets | **28,512** | | | 28,209 | | |
| Total assets | **$ 308,295** | | | $ 293,798 | | |
| **Liabilities and stockholders' equity:** | | | | | | |
| Interest-bearing liabilities: | | | | | | |
| Deposits | **$ 183,475** | **$ 543** | **0.59** | $ 182,431 | $ 548 | 0.60 |
| Securitized debt obligations | **12,396** | **69** | **1.11** | 10,576 | 77 | 1.46 |
| Senior and subordinated notes | **20,465** | **159** | **1.55** | 15,088 | 155 | 2.05 |
| Other borrowings and liabilities | **11,771** | **27** | **0.46** | 10,153 | 20 | 0.39 |
| Total interest-bearing liabilities | **$ 228,107** | **$ 798** | **0.70** | $ 218,248 | $ 800 | 0.73 |
| Non-interest bearing deposits | **25,026** | | | 23,649 | | |
| Other liabilities | **8,334** | | | 8,581 | | |
| Total liabilities | **261,467** | | | 250,478 | | |
| Stockholders' equity | **46,828** | | | 43,320 | | |
| Total liabilities and stockholders' equity | **$ 308,295** | | | $ 293,798 | | |
| Net interest income/spread | | **$ 9,113** | **6.44** | | $ 8,665 | 6.46 |
| Impact of non-interest bearing funding | | | **0.13** | | | 0.13 |
| Net interest margin | | | **6.57%** | | | 6.59% |

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

(2) Past due fees included in interest income totaled approximately $344 million and $697 million in the second quarter and first six months of 2015, respectively, and $336 million and $695 million in the second quarter and first six months of 2014, respectively.

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

Net interest income increased by $222 million to $4.5 billion in the second quarter of 2015 compared to the second quarter of 2014, and increased by $448 million to $9.1 billion in the first six months of 2015 compared to the first six months of 2014. These increases were primarily driven by growth in our credit card, auto and commercial loan portfolios. Net interest margin increased by 1 basis point to 6.56% in the second quarter of 2015 compared to the second quarter of 2014 and decreased by 2 basis points to 6.57% in the first six months of 2015 compared to the first six months of 2014. The relatively consistent net interest margin reflected the shift in the mix of our loan portfolio to higher yielding credit card and auto loans as a result of continued loan growth and the planned run-off of the acquired home loan portfolio, as well as lower wholesale funding costs; offset by the impact of declining yields in our auto, international credit card and investment securities portfolios. The lower yield in the international credit card loan portfolio reflected the impact from the build in the U.K. PPI Reserve in the second quarter of 2015, contributing to a decline of 2 basis points and 1 basis point in the net interest margin for the second quarter of 2015 and the first six months of 2015, respectively.

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

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

| | Three Months Ended June 30, 2015 vs. 2014 | | | Six Months Ended June 30, 2015 vs. 2014 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Total Variance | Volume | Rate | Total Variance | Volume | Rate |
| **Interest income:** | | | | | | |
| Loans: | | | | | | |
| Credit card | $ 196 | $ 247 | $ (51) | $ 350 | $ 433 | $ (83) |
| Consumer banking | 19 | 9 | 10 | 44 | 21 | 23 |
| Commercial banking | 7 | 35 | (28) | 27 | 83 | (56) |
| Other | 30 | (6) | 36 | 64 | (9) | 73 |
| Total loans, including loans held for sale | 252 | 285 | (33) | 485 | 528 | (43) |
| Investment securities | (27) | 8 | (35) | (37) | 14 | (51) |
| Cash equivalents and other interest-earning assets | — | (1) | 1 | (2) | 9 | (11) |
| Total interest income | 225 | 292 | (67) | 446 | 551 | (105) |
| **Interest expense:** | | | | | | |
| Deposits | — | 3 | (3) | (5) | 3 | (8) |
| Securitized debt obligations | (3) | 7 | (10) | (8) | 10 | (18) |
| Senior and subordinated notes | 2 | 17 | (15) | 4 | 42 | (38) |
| Other borrowings and liabilities | 4 | — | 4 | 7 | 3 | 4 |
| Total interest expense | 3 | 27 | (24) | (2) | 58 | (60) |
| **Net interest income** | $ 222 | $ 265 | $ (43) | $ 448 | $ 493 | $ (45) |

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

### Non-Interest Income

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

Table 5 displays the components of non-interest income for the second quarter and first six months of 2015 and 2014.

**Table 5: Non-Interest Income**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Service charges and other customer-related fees | **$ 429** | $ 460 | **$ 866** | $ 934 |
| Interchange fees, net | **567** | 535 | **1,063** | 975 |
| Net other-than-temporary impairment recognized in earnings | **(7)** | (1) | **(22)** | (6) |
| Other non-interest income: | | | | |
| Benefit for mortgage representation and warranty losses[1] | **9** | 29 | **8** | 15 |
| Net (losses) gains from the sale of investment securities | **(1)** | (1) | **1** | 12 |
| Net fair value gains on free-standing derivatives | **12** | 13 | **22** | 26 |
| Other | **126** | 118 | **268** | 217 |
| Total other non-interest income | **146** | 159 | **299** | 270 |
| Total non-interest income | **$ 1,135** | $ 1,153 | **$ 2,206** | $ 2,173 |

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

Non-interest income decreased by $18 million to $1.1 billion in the second quarter of 2015 as compared to the second quarter of 2014, and increased by $33 million to $2.2 billion in the first six months of 2015 as compared to the first six months of 2014. The main drivers for the changes include an increase in net interchange fees due to strong purchase volume in our Credit Card business and a decrease in customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business.

**Provision for Credit Losses**

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $1.1 billion and $2.1 billion in the second quarter and first six months of 2015, respectively, compared to $704 million and $1.4 billion in the second quarter and first six months of 2014, respectively. The provision for credit losses as a percentage of net interest income was 24.9% and 22.6% in the second quarter and first six months of 2015, respectively, compared to 16.3% and 16.6% in the second quarter and first six months of 2014, respectively.

The increases in the provision for credit losses of $425 million and $625 million in the second quarter and first six months of 2015 compared to the second quarter and first six months of 2014, respectively, were primarily due to (i) an allowance build in our credit card loan portfolio in 2015 due to continued loan growth, as compared to an allowance release in 2014 due to improved credit outlook and delinquency inventories; (ii) a larger allowance build and higher net charge-offs in our auto loan portfolio primarily due to continued loan growth and higher loss expectations on recent originations; and (iii) a larger allowance build in our commercial loan portfolio resulting from adverse market conditions impacting certain oil and gas portfolios and certain component of our transportation loan portfolio.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses within "Credit Risk Profile—Summary of Allowance for Loan and Lease Losses," "Note 4—Loans" and "Note 5—Allowance for Loan and Lease Losses." For information on the allowance methodology for each of our loan categories, see "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K.

**Non-Interest Expense**

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

Table 6 displays the components of non-interest expense for the second quarter and first six months of 2015 and 2014.

**Table 6: Non-Interest Expense**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Salaries and associate benefits | **$ 1,360** | $ 1,125 | **$ 2,571** | $ 2,286 |
| Occupancy and equipment | **439** | 447 | **874** | 852 |
| Marketing | **387** | 335 | **762** | 660 |
| Professional services | **334** | 296 | **630** | 583 |
| Communications and data processing | **208** | 203 | **410** | 399 |
| Amortization of intangibles | **111** | 136 | **221** | 279 |
| Other non-interest expense: | | | | |
| Collections | **86** | 98 | **170** | 197 |
| Fraud losses | **74** | 57 | **141** | 130 |
| Bankcard, regulatory and other fee assessments | **108** | 114 | **217** | 227 |
| Other | **200** | 168 | **360** | 298 |
| Other non-interest expense | **468** | 437 | **888** | 852 |
| Total non-interest expense | **$ 3,307** | $ 2,979 | **$ 6,356** | $ 5,911 |

Non-interest expense increased by $328 million to $3.3 billion in the second quarter of 2015 as compared to the second quarter of 2014, and increased by $445 million to $6.4 billion in the first six months of 2015 as compared to the first six months of 2014, primarily due to (i) increased restructuring charges for severance and related benefits pursuant to our ongoing benefit programs and a build in the U.K. PPI Reserve; (ii) continued technology and infrastructure investments; and (iii) higher marketing expense in our Credit Card business and operating expenses related to growth in our credit card, auto and commercial loan portfolios. These increases were partially offset by a decline in the amortization of intangibles.

**Income (Loss) from Discontinued Operations, Net of Tax**

Income (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 our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was closed in 2007. Income from discontinued operations, net of tax, was $11 million and $30 million in the second quarter and first six months of 2015, respectively, compared to a loss of $10 million and income of $20 million in the second quarter and first six months of 2014, respectively. We recorded a benefit net of tax for mortgage representation and warranty reserve of $17 million ($27 million before tax) and $29 million ($46 million before tax) in the second quarter and first six months of 2015, respectively, compared to a provision net of tax of $7 million ($11 million before tax) and a benefit net of tax of $23 million ($36 million before tax) in the second quarter and first six months of 2014, respectively.

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

**Income Taxes**

We recorded income tax provisions of $384 million (31.1% effective income tax rate) and $913 million (31.5% effective income tax rate) in the second quarter and first six months of 2015, respectively, compared to the income tax provision of $581 million (32.5% effective income tax rate) and $1.2 billion (33.3% effective income tax rate) in the second quarter and first six months of 2014, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the second quarter and first six months of 2015, from the second quarter and first six months of 2014, was primarily due to a reduction in pre-tax earnings and higher discrete tax benefits, partially offset by reduced rate benefits from foreign operations. We recorded net discrete tax benefits of $8 million and $5 million in the second quarter and first six months of 2015, respectively. In comparison, we recorded a net discrete expense of $1 million and $28 million the second quarter and first six months of 2014, respectively. Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 31.7% in both the second quarter and first six months of 2015, and 32.5% in both the second quarter and first six months of 2014.

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

## BUSINESS SEGMENT FINANCIAL PERFORMANCE

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

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 19—Business Segments” in our 2014 Form 10-K.

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

Below we summarize our business segment results for the second quarter and first six months of 2015 and 2014 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of June 30, 2015, compared to December 31, 2014. We provide a reconciliation of our total business segment results to our reported consolidated results in “Note 13—Business Segments.” Additionally, we provide information on the outlook for each of our business segments as described above under “Executive Summary and Business Outlook.”

### Credit Card Business

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

Our Credit Card business generated net income from continuing operations of $463 million and $1.1 billion in the second quarter and first six months of 2015, respectively, and $668 million and $1.3 billion in the second quarter and first six months of 2014, respectively.

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

**Table 7: Credit Card Business Results**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **Change** | **2015** | **2014** | **Change** |
| **Selected income statement data:** | | | | | | |
| Net interest income | **$ 2,633** | $ 2,461 | 7% | **$ 5,299** | $ 4,986 | 6% |
| Non-interest income | **845** | 839 | 1 | **1,661** | 1,624 | 2 |
| Total net revenue[(1)] | **3,478** | 3,300 | 5 | **6,960** | 6,610 | 5 |
| Provision for credit losses | **895** | 549 | 63 | **1,564** | 1,107 | 41 |
| Non-interest expense | **1,857** | 1,719 | 8 | **3,633** | 3,445 | 5 |
| Income from continuing operations before income taxes | **726** | 1,032 | (30) | **1,763** | 2,058 | (14) |
| Income tax provision | **263** | 364 | (28) | **632** | 722 | (12) |
| Income from continuing operations, net of tax | **$ 463** | $ 668 | (31) | **$ 1,131** | $ 1,336 | (15) |
| **Selected performance metrics:** | | | | | | |
| Average loans held for investment[(2)] | **$ 83,901** | $ 76,997 | 9 | **$ 83,244** | $ 77,248 | 8 |
| Average yield on loans held for investment[(3)] | **13.98%** | 14.22% | (24)bps | **14.14%** | 14.33% | (19)bps |
| Total net revenue margin[(4)] | **16.58** | 17.14 | (56) | **16.72** | 17.11 | (39) |
| Net charge-offs | **$ 703** | $ 685 | 3% | **$ 1,422** | $ 1,465 | (3)% |
| Net charge-off rate | **3.35%** | 3.56% | (21)bps | **3.42%** | 3.79% | (37)bps |
| Card loan premium amortization and other intangible accretion[(5)] | **$ 7** | $ 31 | (77)% | **$ 18** | $ 68 | (74)% |
| Purchased credit card relationship ("PCCR") intangible amortization | **80** | 94 | (15) | **164** | 192 | (15) |
| Purchase volume[(6)] | **68,559** | 56,358 | 22 | **125,942** | 103,792 | 21 |

| *(Dollars in millions)* | **June 30, 2015** | **December 31, 2014** | **Change** |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment[(2)] | **$ 87,203** | $ 85,876 | 2% |
| 30+ day performing delinquency rate | **2.82%** | 3.24% | (42)bps |
| 30+ day delinquency rate | **2.88** | 3.30 | (42) |
| Nonperforming loan rate | **0.08** | 0.08 | — |
| Allowance for loan and lease losses | **$ 3,324** | $ 3,204 | 4% |
| Allowance coverage ratio[(7)] | **3.81%** | 3.73% | 8bps |

(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $168 million and $315 million in the second quarter and first six months of 2015, respectively, and by $153 million and $316 million in the second quarter and first six months of 2014, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $198 million and $216 million as of June 30, 2015 and December 31, 2014, respectively.

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

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

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

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

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

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

Key factors affecting the results of our Credit Card business for the second quarter and first six months of 2015, compared to the second quarter and first six months of 2014, and changes in financial condition and credit performance between June 30, 2015 and December 31, 2014 include the following:

- *Net Interest Income:* Net interest income increased by $172 million to $2.6 billion in the second quarter of 2015, and increased by $313 million, to $5.3 billion in the first six months of 2015. The increases in net interest income were primarily driven by loan growth in our Credit Card business.

- *Non-Interest Income:* Non-interest income increased by $6 million to $845 million in the second quarter of 2015, and increased by $37 million to $1.7 billion in the first six months of 2015. The increases were primarily attributable to an increase in net interchange fees driven by higher purchase volume, partially offset by a decline in customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business.

- *Provision for Credit Losses:* The provision for credit losses increased by $346 million to $895 million in the second quarter of 2015, and increased by $457 million to $1.6 billion in the first six months of 2015. The increases were primarily driven by a build in the allowance for loan and lease losses in our Domestic Card business in 2015 due to the impact of continued loan growth, as compared to an allowance release in 2014 as a result of improved credit outlook and delinquency inventories.

- *Non-Interest Expense:* Non-interest expense increased by $138 million to $1.9 billion in the second quarter of 2015, and increased by $188 million to $3.6 billion in the first six months of 2015. These increases were due to higher marketing expenses and operating expenses associated with loan growth, and a build in our U.K. PPI Reserve in the second quarter of 2015, partially offset by lower intangibles amortization expense.

- *Loans Held for Investment:* Period-end loans held for investment increased by $1.3 billion to $87.2 billion as of June 30, 2015 from December 31, 2014, primarily due to growth in the Domestic Card business, partially offset by expected seasonal paydowns. Average loans held for investment increased by $6.9 billion to $83.9 billion in the second quarter of 2015 compared to the second quarter of 2014, and increased by $6.0 billion to $83.2 billion in the first six months of 2015 compared to the first six months of 2014, primarily due to loan growth in the Credit Card business.

- *Net Charge-off and Delinquency Statistics:* Our net charge-off rate decreased by 21 basis points to 3.35% in the second quarter of 2015 compared to the second quarter of 2014, and decreased by 37 basis points to 3.42% in the first six months of 2015 compared to the first six months of 2014. The decreases in net charge-off rate were primarily due to higher average loan balances and the continued economic improvement. The 30+ day delinquency rate decreased by 42 basis points to 2.88% as of June 30, 2015 from December 31, 2014 due to seasonally lower delinquency inventories.

***Domestic Card Business***

Domestic Card generated net income from continuing operations of $458 million and $1.1 billion in the second quarter and first six months of 2015, respectively, compared to net income from continuing operations of $607 million and $1.2 billion in the second quarter and first six months of 2014, respectively. Domestic Card accounted for 92% and 91% of total net revenues of our Credit Card business in the second quarter and first six months of 2015, respectively, compared to 90% in both the second quarter and first six months of 2014. Income attributable to Domestic Card represented 99% and 95% of net income for our Credit Card business in the second quarter and first six months of 2015, respectively, compared to 91% and 90% in the second quarter and first six months of 2014, respectively.

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

**Table 7.1: Domestic Card Business Results**

| | Three Months Ended June 30, | | | | | Six Months Ended June 30, | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | | 2014 | | Change | 2015 | | 2014 | | Change |
| **Selected income statement data:** | | | | | | | | | | |
| Net interest income | **$** | **2,395** | $ | 2,193 | 9% | **$** | **4,816** | $ | 4,448 | 8% |
| Non-interest income | | **796** | | 768 | 4 | | **1,539** | | 1,470 | 5 |
| Total net revenue[1] | | **3,191** | | 2,961 | 8 | | **6,355** | | 5,918 | 7 |
| Provision for credit losses | | **853** | | 504 | 69 | | **1,463** | | 990 | 48 |
| Non-interest expense | | **1,621** | | 1,513 | 7 | | **3,201** | | 3,058 | 5 |
| Income from continuing operations before income taxes | | **717** | | 944 | (24) | | **1,691** | | 1,870 | (10) |
| Income tax provision | | **259** | | 337 | (23) | | **612** | | 668 | (8) |
| Income from continuing operations, net of tax | **$** | **458** | $ | 607 | (25) | **$** | **1,079** | $ | 1,202 | (10) |
| **Selected performance metrics:** | | | | | | | | | | |
| Average loans held for investment[2] | **$** | **75,924** | $ | 69,376 | 9 | **$** | **75,349** | $ | 69,592 | 8 |
| Average yield on loans held for investment[3] | | **13.95%** | | 13.95% | — | | **14.09%** | | 14.07% | 2bps |
| Total net revenue margin[4] | | **16.81** | | 17.07 | (26)bps | | **16.87** | | 17.01 | (14) |
| Net charge-offs | **$** | **650** | $ | 610 | 7% | **$** | **1,314** | $ | 1,310 | — |
| Net charge-off rate | | **3.42%** | | 3.52% | (10)bps | | **3.49%** | | 3.77% | (28)bps |
| Card loan premium amortization and other intangible accretion[5] | **$** | **7** | $ | 31 | (77)% | **$** | **18** | $ | 68 | (74)% |
| PCCR intangible amortization | | **80** | | 94 | (15) | | **164** | | 192 | (15) |
| Purchase volume[6] | | **62,198** | | 52,653 | 18 | | **114,223** | | 96,792 | 18 |

| *(Dollars in millions)* | June 30, 2015 | | December 31, 2014 | | Change |
|---|---|---|---|---|---|
| **Selected period-end data:** | | | | | |
| Loans held for investment[2] | **$** | **78,984** | $ | 77,704 | 2% |
| 30+ day delinquency rate | | **2.84%** | | 3.27% | (43)bps |
| Allowance for loan and lease losses | **$** | **3,018** | $ | 2,878 | 5% |
| Allowance coverage ratio[7] | | **3.82%** | | 3.70% | 12bps |

[1] We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs.

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

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

[4] Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period.

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

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

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

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results discussed above are similar to the key factors affecting our total Credit Card business. The primary driver of the decreases in net income for our Domestic Card business in the second quarter and first six months of 2015, compared to the second quarter and first six months of 2014, was continued loan growth, which drove a higher provision for credit losses largely due to a build in the allowance for loan and lease losses, as well as higher marketing and operating expenses that were partially offset by higher revenue also driven by loan growth.

***International Card Business***

International Card generated net income from continuing operations of $5 million and $52 million in the second quarter and first six months of 2015, respectively, compared to net income from continuing operations of $61 million and $134 million in the second quarter and first six months of 2014, respectively. The decreases were primarily due to (i) a build in our U.K. PPI Reserve in the second quarter of 2015, which resulted in a reduction to our net revenue and increased non-interest expense; and (ii) the impact of foreign exchange rates driven by the strengthening of the U.S. dollar in the first six months of 2015.

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

**Table 7.2: International Card Business Results**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | 2014 | Change | 2015 | 2014 | Change |
| **Selected income statement data:** | | | | | | |
| Net interest income | **$ 238** | $ 268 | (11)% | **$ 483** | $ 538 | (10)% |
| Non-interest income | **49** | 71 | (31) | **122** | 154 | (21) |
| Total net revenue | **287** | 339 | (15) | **605** | 692 | (13) |
| Provision for credit losses | **42** | 45 | (7) | **101** | 117 | (14) |
| Non-interest expense | **236** | 206 | 15 | **432** | 387 | 12 |
| Income from continuing operations before income taxes | **9** | 88 | (90) | **72** | 188 | (62) |
| Income tax provision | **4** | 27 | (85) | **20** | 54 | (63) |
| Income from continuing operations, net of tax | **$ 5** | $ 61 | (92) | **$ 52** | $ 134 | (61) |
| **Selected performance metrics:** | | | | | | |
| Average loans held for investment[1] | **$ 7,977** | $ 7,621 | 5 | **$ 7,895** | $ 7,656 | 3 |
| Average yield on loans held for investment[2] | **14.29%** | 16.74% | (245)bps | **14.60%** | 16.69% | (209)bps |
| Total net revenue margin[3] | **14.36** | 17.76 | (340) | **15.33** | 18.07 | (274) |
| Net charge-offs | **$ 53** | $ 75 | (29)% | **$ 108** | $ 155 | (30)% |
| Net charge-off rate | **2.65%** | 3.93% | (128)bps | **2.73%** | 4.05% | (132)bps |
| Purchase volume[4] | **$ 6,361** | $ 3,705 | 72% | **$ 11,719** | $ 7,000 | 67% |

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 | Change |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment[1] | **$ 8,219** | $ 8,172 | 1% |
| 30+ day performing delinquency rate | **2.65%** | 2.94% | (29)bps |
| 30+ day delinquency rate | **3.29** | 3.60 | (31) |
| Nonperforming loan rate | **0.83** | 0.86 | (3) |
| Allowance for loan and lease losses | **$ 306** | $ 326 | (6)% |
| Allowance coverage ratio[5] | **3.71%** | 3.99% | (28)bps |

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

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

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

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

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

### Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of $291 million and $557 million in the second quarter and first six months of 2015, respectively, and $334 million and $664 million in the second quarter and first six months of 2014, respectively.

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

**Table 8: Consumer Banking Business Results**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | 2014 | Change | 2015 | 2014 | Change |
| **Selected income statement data:** | | | | | | |
| Net interest income | **$ 1,444** | $ 1,431 | 1% | **$ 2,878** | $ 2,864 | — |
| Non-interest income | **196** | 170 | 15 | **354** | 320 | 11 |
| Total net revenue | **1,640** | 1,601 | 2 | **3,232** | 3,184 | 2 |
| Provision for credit losses | **185** | 143 | 29 | **391** | 283 | 38 |
| Non-interest expense | **998** | 938 | 6 | **1,968** | 1,868 | 5 |
| Income from continuing operations before income taxes | **457** | 520 | (12) | **873** | 1,033 | (15) |
| Income tax provision | **166** | 186 | (11) | **316** | 369 | (14) |
| Income from continuing operations, net of tax | **$ 291** | $ 334 | (13) | **$ 557** | $ 664 | (16) |
| **Selected performance metrics:** | | | | | | |
| Average loans held for investment:[1] | | | | | | |
| Auto | **$ 39,546** | $ 33,972 | 16 | **$ 38,970** | $ 33,184 | 17 |
| Home loan | **28,251** | 33,299 | (15) | **28,869** | 33,969 | (15) |
| Retail banking | **3,570** | 3,613 | (1) | **3,565** | 3,621 | (2) |
| Total consumer banking | **$ 71,367** | $ 70,884 | 1 | **$ 71,404** | $ 70,774 | 1 |
| Average yield on loans held for investment[2] | **6.27%** | 6.22% | 5bps | **6.27%** | 6.20% | 7bps |
| Average deposits | **$ 171,076** | $ 169,694 | 1% | **$ 170,339** | $ 169,188 | 1% |
| Average deposit interest rate | **0.57%** | 0.57% | — | **0.57%** | 0.57% | — |
| Core deposit intangible amortization | **$ 21** | $ 28 | (25)% | **$ 43** | $ 58 | (26)% |
| Net charge-offs | **136** | 122 | 11 | **295** | 270 | 9 |
| Net charge-off rate | **0.76%** | 0.69% | 7bps | **0.83%** | 0.76% | 7bps |
| Net charge-off rate (excluding Acquired Loans)[3] | **1.09** | 1.09 | — | **1.19** | 1.23 | (4) |
| Auto loan originations | **$ 5,433** | $ 5,376 | 1% | **$ 10,618** | $ 10,103 | 5% |

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 | Change |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment:[1] | | | |
| Auto | **$ 39,991** | $ 37,824 | 6% |
| Home loan | **27,595** | 30,035 | (8) |
| Retail banking | **3,590** | 3,580 | — |
| Total consumer banking | **$ 71,176** | $ 71,439 | — |
| 30+ day performing delinquency rate | **3.24%** | 3.60% | (36)bps |
| 30+ day performing delinquency rate (excluding Acquired Loans)[3] | **4.57** | 5.34 | (77) |
| 30+ day delinquency rate | **3.80** | 4.23 | (43) |
| 30+ day delinquency rate (excluding Acquired Loans)[3] | **5.36** | 6.28 | (92) |
| Nonperforming loans rate | **0.70** | 0.77 | (7) |
| Nonperforming loans rate (excluding Acquired Loans)[3] | **1.00** | 1.14 | (14) |
| Nonperforming asset rate[4] | **0.98** | 1.06 | (8) |
| Nonperforming asset rate (excluding Acquired Loans)[3][4] | **1.39** | 1.57 | (18) |
| Allowance for loan and lease losses[5] | **$ 875** | $ 779 | 12% |
| Allowance coverage ratio[6] | **1.23%** | 1.09% | 14bps |
| Deposits | **$ 170,321** | $ 168,078 | 1% |
| Loans serviced for others | **7,042** | 6,701 | 5 |

(1) The period-end consumer banking loans held for investments includes Acquired Loans with carrying values of $20.8 billion and $23.3 billion as of June 30, 2015 and December 31, 2014, respectively. The average balance of consumer banking loans held for investment includes Acquired Loans of $21.3 billion and $26.2 billion in the second quarter of 2015 and 2014, respectively, and $21.9 billion and $26.8 billion in the first six months of 2015 and 2014, respectively.

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

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

(4) Nonperforming assets consist of nonperforming loans, real estate owned ("REO") and other foreclosed assets. The nonperforming asset rate is calculated based on nonperforming assets as of the end of the period divided by the sum of period-end loans held for investment, foreclosed properties and other foreclosed assets, and is adjusted to exclude the impact of acquired REOs.

(5) Allowance for loan and lease losses does not include the reserve for unfunded lending commitments of $7 million as of both June 30, 2015 and December 31, 2014, which was recorded in other liabilities on our consolidated balance sheets.

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

Key factors affecting the results of our Consumer Banking business for the second quarter and first six months of 2015, compared to the second quarter and first six months of 2014, and changes in financial condition and credit performance between June 30, 2015 and December 31, 2014 include the following:

- *Net Interest Income:* Net interest income remained relatively consistent at $1.4 billion in the second quarter of 2015 and $2.9 billion in the first six months of 2015 as compared to the second quarter and first six months of 2014, as the higher net interest income generated by the growth in our auto loan portfolio was almost completely offset by the lower net interest income from our home loan portfolio attributable to the planned run-off of the acquired portfolio, margin compression in auto loans and compression in deposit spreads in retail banking.

  Consumer Banking loan yields increased by 5 basis points to 6.3% and increased by 7 basis points to 6.3% in the second quarter and first six months of 2015, respectively, compared to the second quarter and first six months of 2014. The increases were driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and the planned run-off of the acquired home loan portfolio. The increase in our auto loan portfolio in relation to our total consumer banking loan portfolio drove an increase in the total Consumer Banking yield, even as the average yield on auto loans decreased by 68 basis points to 8.1% and decreased by 70 basis points to 8.2% in the second quarter and first six months of 2015, respectively. These decreases were primarily attributable to a shift to a higher proportion of prime auto loans and increased competition in the auto business. The average yield on the home loan portfolio increased by 15 basis points to 3.9% and increased by 16 basis points to 3.9% in the second quarter and first six months of 2015, respectively, driven by an increase in expected cash flows as a result of credit improvement on the acquired home loan portfolio.

- *Non-Interest Income:* Non-interest income increased by $26 million to $196 million in the second quarter of 2015, and increased by $34 million to $354 million in the first six months of 2015 partially attributable to an increase in loans originated and sold within our home loan portfolio.

- *Provision for Credit Losses:* The provision for credit losses increased by $42 million to $185 million in the second quarter of 2015, and increased by $108 million to $391 million in the first six months of 2015. The increases were driven by an allowance build and higher net charge-offs in our auto loan portfolio due to continued loan growth and higher loss expectations on recent originations.

- *Non-Interest Expense:* Non-interest expense increased by $60 million to $998 million in the second quarter of 2015, and increased by $100 million to $2.0 billion in the first six months of 2015, largely due to continued technology and infrastructure investments in our retail banking business and increased operating expenses due to growth in our auto loan portfolio.

- *Loans Held for Investment:* Period-end loans held for investment decreased by $263 million to $71.2 billion as of June 30, 2015 from December 31, 2014, primarily due the planned run-off of our acquired home loan portfolio, partially offset by the growth in the auto loan portfolio. Average loans held for investment increased by $483 million to $71.4 billion in the second quarter of 2015 compared to the second quarter of 2014, and increased by $630 million to $71.4 billion in the first six months of 2015 compared to the first six months of 2014, due to the growth in our auto loan portfolio outpacing the planned run-off of our acquired home loan portfolio.

- *Deposits:* Period-end deposits increased by $2.2 billion to $170.3 billion as of June 30, 2015 from December 31, 2014, primarily driven by our continued focus on deposit relationships with existing customers and attracting new customers.

- *Net Charge-off and Delinquency Statistics:* The net charge-off rate increased by 7 basis points to 0.76% in the second quarter of 2015 compared to the second quarter of 2014, and increased by 7 basis points to 0.83% in the first six months of 2015 compared to the first six months of 2014. The increase in the net charge-off rate reflected the planned run-off of our acquired home loan portfolio, which generally do not have charge-offs since these loans were recorded at fair value at acquisition, and a greater portion of auto loans in our portfolio, which have a higher charge-off rate than other products within the total consumer banking loan portfolio. The 30+ day delinquency rate decreased by 43 basis points to 3.80% as of June 30, 2015 from December 31, 2014, primarily attributable to seasonally lower auto delinquency inventories.

**Commercial Banking Business**

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

Our Commercial Banking business generated net income from continuing operations of $172 million and $327 million in the second quarter and first six months of 2015, respectively, and $171 million and $308 million in the second quarter and first six months of 2014, respectively.

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 June 30, 2015 | 2014 | Change | Six Months Ended June 30, 2015 | 2014 | Change |
|---|---|---|---|---|---|---|
| **Selected income statement data:** | | | | | | |
| Net interest income | **$ 466** | $ 436 | 7% | **$ 927** | $ 857 | 8% |
| Non-interest income | **123** | 109 | 13 | **237** | 196 | 21 |
| Total net revenue[1] | **589** | 545 | 8 | **1,164** | 1,053 | 11 |
| Provision for credit losses | **49** | 12 | 308 | **109** | 52 | 110 |
| Non-interest expense | **270** | 267 | 1 | **542** | 522 | 4 |
| Income from continuing operations before income taxes | **270** | 266 | 2 | **513** | 479 | 7 |
| Income tax provision | **98** | 95 | 3 | **186** | 171 | 9 |
| Income from continuing operations, net of tax | **$ 172** | $ 171 | 1 | **$ 327** | $ 308 | 6 |
| **Selected performance metrics:** | | | | | | |
| Average loans held for investment:[2] | | | | | | |
| Commercial and multifamily real estate | **$ 22,853** | $ 21,484 | 6 | **$ 22,985** | $ 21,224 | 8 |
| Commercial and industrial | **27,414** | 24,611 | 11 | **27,303** | 24,079 | 13 |
| Total commercial lending | **50,267** | 46,095 | 9 | **50,288** | 45,303 | 11 |
| Small-ticket commercial real estate | **709** | 896 | (21) | **735** | 914 | (20) |
| Total commercial banking | **$ 50,976** | $ 46,991 | 8 | **$ 51,023** | $ 46,217 | 10 |
| Average yield on loans held for investment[1] | **3.26%** | 3.50% | (24)bps | **3.24%** | 3.48% | (24)bps |
| Average deposits | **$ 32,778** | $ 31,238 | 5% | **$ 32,811** | $ 31,431 | 4% |
| Average deposit interest rate | **0.25%** | 0.24% | 1bps | **0.24%** | 0.24% | — |
| Core deposit intangible amortization | **$ 4** | $ 5 | (20)% | **$ 8** | $ 11 | (27)% |
| Net charge-offs | **7** | 3 | 133 | **10** | 7 | 43 |
| Net charge-off rate | **0.05%** | 0.03% | 2bps | **0.04%** | 0.03% | 1bps |

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 | Change |
|---|---|---|---|
| **Selected period-end data:** | | | |
| Loans held for investment:[2] | | | |
| Commercial and multifamily real estate | **$ 22,886** | $ 23,137 | (1)% |
| Commercial and industrial | **27,660** | 26,972 | 3 |
| Total commercial lending | **50,546** | 50,109 | 1 |
| Small-ticket commercial real estate | **685** | 781 | (12) |
| Total commercial banking | **$ 51,231** | $ 50,890 | 1 |
| Nonperforming loans rate | **0.90%** | 0.34% | 56bps |
| Nonperforming asset rate[3] | **0.91** | 0.36 | 55 |
| Allowance for loan and lease losses[4] | **$ 472** | $ 395 | 19% |
| Allowance coverage ratio[5] | **0.92%** | 0.78% | 14bps |
| Deposits | **$ 32,909** | $ 31,954 | 3% |
| Loans serviced for others[6] | **16,227** | 14,131 | 15 |

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(1) The average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Annualized interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment. Some of our tax-related commercial investments generate tax-exempt income or tax credits. Accordingly, we make certain reclassifications within our Commercial Banking business results to present revenues and yields on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory tax rate of 35%.

(2) The period-end commercial banking loans held for investments includes Acquired Loans with carrying value of $154 million and $191 million as of June 30, 2015 and December 31, 2014, respectively. The average balance of commercial banking loans held for investment includes Acquired Loans of $156 million and $222 million in the second quarter of 2015 and 2014 respectively, and $163 million and $226 million in the first six months of 2015 and 2014, respectively.

(3) Nonperforming assets consist of nonperforming loans, real estate owned ("REO") and other foreclosed assets. The nonperforming asset rate is calculated based on nonperforming assets as of the end of the period divided by the sum of period-end loans held for investment, foreclosed properties and other foreclosed assets, and is adjusted to exclude the impact of acquired REOs.

(4) We recorded the reserve for unfunded lending commitments of $128 million and $106 million in other liabilities on our consolidated balance sheets as of June 30, 2015 and December 31, 2014, respectively.

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

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

Key factors affecting the results of our Commercial Banking business for the second quarter and first six months of 2015, compared to the second quarter and first six months of 2014, and changes in financial condition and credit performance between June 30, 2015 and December 31, 2014 include the following:

- *Net Interest Income:* Net interest income increased by $30 million to $466 million in the second quarter of 2015, and increased by $70 million to $927 million in the first six months of 2015. The increase was due to growth in commercial and industrial and commercial and multifamily real estate average loans, partially offset by lower loan yields driven by market and competitive pressures.

- *Non-Interest Income:* Non-interest income increased by $14 million to $123 million in the second quarter of 2015, and increased by $41 million to $237 million in the first six months of 2015. The increases were primarily driven by increased revenue from fee-based services and products related to our multifamily finance business.

- *Provision for Credit Losses:* The provision for credit losses increased by $37 million to $49 million in the second quarter of 2015, and increased by $57 million to $109 million in the first six months of 2015. The increases were primarily driven by a larger allowance build resulting from adverse market conditions impacting certain oil and gas portfolios and certain components of our transportation loan portfolio, and a larger build in the reserve for unfunded lending commitments. See "MD&A—Table 18—Commercial Loans by Industry" for additional information about the composition of our commercial banking loan portfolio, and "Note 4—Loans" for additional information about our criticized commercial banking loan portfolio.

- *Non-Interest Expense:* Non-interest expense increased by $3 million to $270 million in the second quarter of 2015, and increased by $20 million to $542 million in the first six months of 2015, driven by higher operating expenses associated with continued growth in our Commercial Banking business.

- *Loans Held for Investment:* Period-end loans held for investment increased by $341 million to $51.2 billion as of June 30, 2015 from December 31, 2014 as originations were mostly offset by paydowns. Average loans held for investment increased by $4.0 billion to $51.0 billion in the second quarter of 2015 compared to the second quarter of 2014, and increased by $4.8 billion to $51.0 billion in the first six months of 2015 compared to the first six months of 2014, driven by loan growth in the commercial and industrial and commercial and multifamily real estate businesses.

- *Deposits:* Period-end deposits increased by $955 million to $32.9 billion as of June 30, 2015 from December 31, 2014, driven by our strategy to strengthen existing relationships with and increase liquidity from our commercial customers.

- *Net Charge-off and Nonperforming Statistics:* The net charge-off rate increased by 2 basis points to 0.05% in the second quarter of 2015 compared to the second quarter of 2014, and increased by 1 basis point to 0.04% in the first six months of 2015 compared to the first six months of 2014. The nonperforming loans rate increased by 56 basis points to 0.90% as of June 30, 2015 from December 31, 2014 reflecting certain credit risk rating downgrades in our oil and gas portfolio and certain components of our transportation loan portfolio.

**Other Category**

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

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

**Table 10: Other Category Results**

| | Three Months Ended June 30, | | | Six Months Ended June 30, | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | 2014 | Change | 2015 | 2014 | Change |
| **Selected income statement data:** | | | | | | |
| Net interest (expense) income[1] | **$ (6)** | $ (13) | (54)% | **$ 9** | $ (42) | ** |
| Non-interest income | **(29)** | 35 | ** | **(46)** | 33 | ** |
| Total net (loss) revenue | **(35)** | 22 | ** | **(37)** | (9) | ** |
| Benefit for credit losses | **—** | — | — | **—** | (3) | ** |
| Non-interest expense | **182** | 55 | 231 | **213** | 76 | 180% |
| Loss from continuing operations before income taxes | **(217)** | (33) | ** | **(250)** | (82) | ** |
| Income tax benefit | **(143)** | (64) | 123 | **(221)** | (102) | 117 |
| (Loss) income from continuing operations, net of tax | **$ (74)** | $ 31 | ** | **$ (29)** | $ 20 | ** |

** Change is not meaningful.

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

Net loss from continuing operations recorded in the Other category was $74 million and $29 million in the second quarter and first six months of 2015, respectively, compared to a net income from continuing operations of $31 million and $20 million in the second quarter and first six months of 2014, respectively. The shift to a net loss from a net profit was primarily due to the restructuring charges for severance and related benefits pursuant to our ongoing benefit programs during the second quarter of 2015 and decreased net revenue from our Corporate Treasury function driven by lower interest rates.

## CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by $2.3 billion to $310.5 billion as of June 30, 2015 from December 31, 2014 primarily attributable to an increase of $1.3 billion in loans held for investment in our Credit Card business due to strong growth in our Domestic Card business and an increase of $1.2 billion in securities due to purchases outpacing sales, maturities and paydowns. Total liabilities increased by $737 million to $263.9 billion as of June 30, 2015, primarily driven by higher deposit and outstanding debt due to new issuances outpacing maturities, partially offset by lower Federal Home Loan Banks (“FHLB”) advances resulting from lower liquidity-related short-term funding needs due to expected seasonality. Stockholders’ equity increased by $1.6 billion to $46.7 billion as of June 30, 2015. The increase in stockholders’ equity was primarily attributable to our net income of $2.0 billion in the first six months of 2015 and $988 million of proceeds from the issuance of preferred stock, partially offset by share repurchases under our 2014 and 2015 Stock Repurchase Programs and dividend payments.

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

### Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency (“Agency”) and non-agency residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other investments. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 89% and 86% of our total investment securities portfolio as of June 30, 2015 and December 31, 2014, respectively.

During the first six months of 2015, the fair value of our investment portfolio increased by $505 million to $63.6 billion as of June 30, 2015 from December 31, 2014 due to purchases outpacing maturities and paydowns.

We had gross unrealized gains of $790 million and gross unrealized losses of $210 million on available-for sale investment securities as of June 30, 2015, compared to gross unrealized gains of $886 million and gross unrealized losses of $237 million as of December 31, 2014. The decreases in gross unrealized gains and gross unrealized losses in the first six months of 2015 were primarily driven by changes in interest rates. Of the $210 million in gross unrealized losses as of June 30, 2015, $136 million was related to securities that had been in a loss position for more than 12 months. We provide information on other-than-temporary impairment ("OTTI") recognized in earnings on our investment securities above in "Consolidated Results of Operations—Non-Interest Income."

Table 11 presents the amortized cost, carrying value and fair value for the major categories of our portfolio of investment securities as of June 30, 2015 and December 31, 2014.

**Table 11: Investment Securities**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | **Amortized Cost** | **Fair Value** | **Amortized Cost** | **Fair Value** |
| **Investment securities available for sale** | | | | |
| U.S. Treasury securities | **$ 4,411** | **$ 4,438** | $ 4,114 | $ 4,118 |
| Corporate debt securities guaranteed by U.S. government agencies | **425** | **421** | 819 | 800 |
| RMBS: | | | | |
| Agency[1] | **23,529** | **23,652** | 21,804 | 21,995 |
| Non-agency | **2,857** | **3,294** | 2,938 | 3,386 |
| Total RMBS | **26,386** | **26,946** | 24,742 | 25,381 |
| CMBS: | | | | |
| Agency[1] | **3,501** | **3,484** | 3,751 | 3,723 |
| Non-agency | **1,765** | **1,779** | 1,780 | 1,796 |
| Total CMBS | **5,266** | **5,263** | 5,531 | 5,519 |
| Other ABS[2] | **1,728** | **1,727** | 2,618 | 2,662 |
| Other securities[3] | **340** | **341** | 1,035 | 1,028 |
| Total investment securities available for sale | **$ 38,556** | **$ 39,136** | $ 38,859 | $ 39,508 |

| *(Dollars in millions)* | **Carrying Value** | **Fair Value** | **Carrying Value** | **Fair Value** |
|---|---|---|---|---|
| **Investment securities held to maturity** | | | | |
| U.S. Treasury securities | **$ 198** | **$ 199** | $ 0 | $ 0 |
| Agency RMBS | **20,614** | **21,371** | 20,163 | 21,210 |
| Agency CMBS | **2,856** | **2,941** | 2,337 | 2,424 |
| Total investment securities held to maturity | **$ 23,668** | **$ 24,511** | $ 22,500 | $ 23,634 |

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

(2) ABS collateralized by credit card loans constituted approximately 63% and 56% of the other ABS portfolio as of June 30, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 16% of the other ABS portfolio as of June 30, 2015 and December 31, 2014, respectively.

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

### *Credit Ratings*

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. Approximately 94% and 93% of our total investment securities portfolio was rated AA+ or its equivalent, or better, as of June 30, 2015 and December 31, 2014, respectively, while approximately 5% and 6% was below investment grade as of June 30, 2015 and December 31, 2014, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the following rating agencies: Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of June 30, 2015 and December 31, 2014.

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

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Fair Value | AAA | Other Investment Grade | Below Investment Grade[(1)] | Fair Value | AAA | Other Investment Grade | Below Investment Grade[(1)] |
| Non-agency RMBS | **$ 3,294** | **—%** | **3%** | **97%** | $ 3,386 | —% | 3% | 97% |
| Non-agency CMBS | **1,779** | **100** | **—** | **—** | 1,796 | 100 | — | — |
| Other ABS | **1,727** | **99** | **1** | **—** | 2,662 | 90 | 5 | 5 |
| Other securities | **341** | **8** | **66** | **26** | 1,028 | 2 | 88 | 10 |

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

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

### Loans Held for Investment

Total loans held for investment ("HFI") consist of unrestricted loans and loans held and restricted in our consolidated securitization trusts. Table 13 summarizes our portfolio of loans held for investment by portfolio segment, net of the allowance for loan and lease losses, as of June 30, 2015 and December 31, 2014.

**Table 13: Loans Held for Investment**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Loans | Allowance | Net Loans | Loans | Allowance | Net Loans |
| Credit Card | **$ 87,203** | **$ 3,324** | **$ 83,879** | $ 85,876 | $ 3,204 | $ 82,672 |
| Consumer Banking | **71,176** | **875** | **70,301** | 71,439 | 779 | 70,660 |
| Commercial Banking | **51,231** | **472** | **50,759** | 50,890 | 395 | 50,495 |
| Other | **95** | **5** | **90** | 111 | 5 | 106 |
| Total | **$ 209,705** | **$ 4,676** | **$ 205,029** | $ 208,316 | $ 4,383 | $ 203,933 |

Period-end loans held for investment increased by $1.4 billion to $209.7 billion as of June 30, 2015 from December 31, 2014, primarily driven by loan growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio and the expected seasonal paydowns in our credit card loan portfolio.

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

### Loans Held for Sale

Loans held for sale, which are carried at lower of cost or fair value, increased by $440 million to $1.1 billion, as of June 30, 2015 from December 31, 2014. The increase was primarily due to (i) the transfer of certain domestic credit card loans to held for sale from held for investment in the second quarter of 2015; and (ii) higher originations in our multifamily finance business in our Commercial Banking business and the timing of sales of these loans.

### Deposits

Our deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total deposits increased by $3.2 billion to $208.8 billion as of June 30, 2015 from December 31, 2014. The increase in deposits was primarily driven by seasonality and the growth in our Consumer Banking and Commercial Banking businesses as a result of our continued focus on deposit relationships with existing customers and our continued marketing strategy to attract new business.

We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in "Liquidity Risk Profile."

**Securitized Debt Obligations**

Securitized debt obligations increased by $2.2 billion to $13.8 billion as of June 30, 2015 from December 31, 2014 primarily driven by debt issuances of $2.3 billion, offset by debt maturities of $175 million during the first six months of 2015. We provide additional information on our borrowings below in "Liquidity Risk Profile."

**Other Debt**

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and FHLB advances, totaled $32.0 billion as of June 30, 2015, of which $1.9 billion represented short-term borrowings and $30.1 billion represented long-term debt. Other debt totaled $36.8 billion as of December 31, 2014, of which $17.1 billion represented short-term borrowings and $19.7 billion represented long-term debt.

The decrease in other debt of $4.8 billion in the first six months of 2015 was primarily attributable to a net decrease of $7.2 billion in FHLB advances, partially offset by net increases of $1.3 billion in unsecured senior notes and $1.0 billion in federal funds purchased and securities loaned or sold under agreements to repurchase. We provide additional information on our borrowings below in "Liquidity Risk Profile" and in "Note 8—Deposits and Borrowings."

**Mortgage Representation and Warranty Reserve**

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

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities totaled $636 million as of June 30, 2015, compared to $731 million as of December 31, 2014.

The table below summarizes changes in our representation and warranty reserve in the second quarter and first six months of 2015 and 2014.

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

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Representation and warranty reserve, beginning of period | **$ 673** | $ 1,128 | **$ 731** | $ 1,172 |
| (Benefit) provision for mortgage representation and warranty losses: | | | | |
| Recorded in continuing operations | **(9)** | (29) | **(8)** | (15) |
| Recorded in discontinued operations | **(27)** | 11 | **(46)** | (36) |
| Total benefit for mortgage representation and warranty losses | **(36)** | (18) | **(54)** | (51) |
| Net realized losses | **(1)** | (98) | **(41)** | (109) |
| Representation and warranty reserve, end of period | **$ 636** | $ 1,012 | **$ 636** | $ 1,012 |

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental reserve under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of June 30, 2015, is approximately $1.6 billion,

a decline from our estimate of $2.1 billion as of December 31, 2014. The decrease in the reasonably possible estimate of representation and warranty reserve was primarily driven by settlements and favorable industry legal developments.

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

## OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

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

Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. We provide a discussion of our activities related to these VIEs in "Note 6—Variable Interest Entities and Securitizations."

## CAPITAL MANAGEMENT

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

**Capital Standards and Prompt Corrective Action**

Bank holding companies and national banks are subject to capital adequacy standards adopted by the Federal Reserve and the Office of the Comptroller of the Currency ("OCC"), respectively. The capital adequacy standards set forth minimum risk-based and leverage capital requirements that are based on quantitative and qualitative measures of assets and off-balance sheet items. National banks, as insured depository institutions, are also subject to Prompt Corrective Action ("PCA") capital regulations, which require the U.S. federal banking agencies to take "prompt corrective action" for banks that do not meet the PCA capital requirements.

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

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

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

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

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

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

Table 15 provides a comparison of our regulatory capital ratios under the Federal Banking Agencies’ capital adequacy standards as of June 30, 2015 and December 31, 2014. Under the Final Basel III Capital Rules, beginning on January 1, 2014, as an Advanced Approaches banking organization we began using the Basel III Standardized Approach for calculating our regulatory capital, subject to applicable transition provisions. Throughout 2014, we continued to use Basel I for calculating our risk-weighted assets in our regulatory capital ratios, as required under the Final Basel III Capital Rules. On January 1, 2015, we began using the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

**Table 15: Capital Ratios[(1)(2)]**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Capital Ratio | Minimum Capital Adequacy | Well-Capitalized | Capital Ratio | Minimum Capital Adequacy | Well-Capitalized |
| **Capital One Financial Corp:** | | | | | | |
| Common equity Tier 1 capital[(3)] | **12.1%** | **4.5%** | **N/A** | 12.5% | 4.0% | N/A |
| Tier 1 risk-based capital[(4)] | **13.3** | **6.0** | **6.0%** | 13.2 | 5.5 | 6.0% |
| Total risk-based capital[(5)] | **15.1** | **8.0** | **10.0** | 15.1 | 8.0 | 10.0 |
| Tier 1 leverage[(6)] | **11.1** | **4.0** | **N/A** | 10.8 | 4.0 | N/A |
| Supplementary leverage ratio[(7)] | **9.6** | **N/A** | **N/A** | N/A | N/A | N/A |
| **Capital One Bank (USA), N.A.:** | | | | | | |
| Common equity Tier 1 capital[(3)] | **12.1%** | **4.5%** | **6.5%** | 11.3% | 4.0% | N/A |
| Tier 1 risk-based capital[(4)] | **12.1** | **6.0** | **8.0** | 11.3 | 5.5 | 6.0% |
| Total risk-based capital[(5)] | **15.2** | **8.0** | **10.0** | 14.6 | 8.0 | 10.0 |
| Tier 1 leverage[(6)] | **10.5** | **4.0** | **5.0** | 9.6 | 4.0 | 5.0 |
| Supplementary leverage ratio[(7)] | **8.6** | **N/A** | **N/A** | N/A | N/A | N/A |
| **Capital One, N.A.:** | | | | | | |
| Common equity Tier 1 capital[(3)] | **12.6%** | **4.5%** | **6.5%** | 12.5% | 4.0% | N/A |
| Tier 1 risk-based capital[(4)] | **12.6** | **6.0** | **8.0** | 12.5 | 5.5 | 6.0% |
| Total risk-based capital[(5)] | **13.7** | **8.0** | **10.0** | 13.6 | 8.0 | 10.0 |
| Tier 1 leverage[(6)] | **9.1** | **4.0** | **5.0** | 8.9 | 4.0 | 5.0 |
| Supplementary leverage ratio[(7)] | **8.2** | **N/A** | **N/A** | N/A | N/A | N/A |

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

(2) Ratios as of June 30, 2015 are preliminary. As we continue to validate our data the calculations are subject to change until we file our June 30, 2015 Form FR Y-9C—Consolidated Financial Statements for Holding Companies.

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

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

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

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

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

Capital One Financial Corporation exceeded Federal Banking Agencies’ minimum capital requirements and the Banks exceeded minimum regulatory requirements and were “well-capitalized” under PCA requirements as of both June 30, 2015 and December 31, 2014. Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, subject to transition provisions, was 12.1% and 12.5% as of June 30, 2015 and December 31, 2014, respectively.

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

The following table compares our common equity Tier 1 capital and risk-weighted assets as of June 30, 2015, calculated based on the Final Basel III Capital Rules, subject to applicable transition provisions, to our estimated common equity Tier 1 capital and risk-weighted assets as of June 30, 2015, calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks like us that have not yet exited parallel run. Our estimated common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach is based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and is subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators during our parallel run, we anticipate that there could be further changes to the calculation.

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

| *(Dollars in millions)* | | June 30, 2015 |
|---|---|---|
| **Common equity Tier 1 capital under Basel III Standardized** | **$** | **29,804** |
| Adjustments related to AOCI[2] | | **(269)** |
| Adjustments related to intangibles[2] | | **(620)** |
| Other adjustments[2] | | **—** |
| **Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized** | **$** | **28,915** |
| **Risk-weighted assets under Basel III Standardized** | **$** | **246,106** |
| Adjustments for fully phased-in Basel III Standardized[3] | | **(142)** |
| **Estimated risk-weighted assets under fully phased-in Basel III Standardized** | **$** | **245,964** |
| **Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized**[4] | | **11.8%** |

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

(2) Assumes adjustments are fully phased-in.

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

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

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

**Capital Planning and Regulatory Stress Testing**

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

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

**Equity Offerings and Transactions**

On May 14, 2015, the Company issued and sold one million shares of fixed-to-floating rate non-cumulative perpetual preferred stock, Series E, $0.01 par value, with a liquidation preference of $1,000 per share (the “Series E Preferred Stock”). The net proceeds of the offering of Series E Preferred Stock were approximately $988 million, after deducting underwriting commissions and offering expenses.

**Dividend Policy and Stock Purchases**

On July 30, 2015, our Board of Directors declared a quarterly common stock dividend of $0.40 per share, payable on August 20, 2015 to stockholders of record at the close of the business on August 10, 2015. Our Board of Directors also approved quarterly dividends on our Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock payable on September 1, 2015 to stockholders of record at the close of business on August 17, 2015. Based on these declarations, the Company will pay approximately $217 million in common equity dividends and approximately $29 million in total preferred dividends in the third quarter of 2015. Under the terms of our outstanding preferred stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the preferred stock for the immediately preceding dividend period.

We paid common stock dividends of $0.40 per share in the second quarter of 2015. We paid preferred stock dividends of $15.00 per share on the outstanding shares of our 6.00% fixed-rate non-cumulative perpetual preferred stock, Series B (the “Series B Preferred Stock”); $15.625 per share on the outstanding shares of our 6.25% fixed-rate non-cumulative perpetual preferred stock, Series C (the “Series C Preferred Stock”); and $16.75 per share on the outstanding shares of our 6.70% fixed-rate non-cumulative perpetual preferred stock, Series D (the “Series D Preferred Stock”) during the second quarter of 2015.

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. As of June 30, 2015, there were $1.7 billion of funds available for dividend payments from COBNA and no funds available for dividend payments from CONA. There can be no assurance that we will declare and pay any dividends to stockholders.

In addition, consistent with our 2015 capital plan, our Board of Directors has authorized the repurchase of up to $3.125 billion of shares of common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016. Through the end of the second quarter of 2015, we repurchased approximately $625 million of shares as part of this program.

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

## RISK MANAGEMENT

**Overview**

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

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

Our risk framework consists of the following eight key elements:

- Establish Governance Processes, Accountabilities, and Risk Appetites
- Identify and Assess Risks and Ownership
- Develop and Operate Controls, Monitoring and Mitigation Plans
- Test and Detect Control Gaps and Perform Corrective Action
- Escalate Key Risks and Gaps to Executive Management and, when Appropriate, the Board of Directors
- Calculate and Allocate Capital in Alignment with Risk Management and Measurement Processes (including Stress Testing)
- Support with the Right Culture, Talent and Skills
- Enable with the Right Data, Infrastructure and Programs

We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under "MD&A—Risk Management" in our 2014 Form 10-K.

## CREDIT RISK PROFILE

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

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

### Loan Portfolio Composition

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

Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of June 30, 2015 and December 31, 2014. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $1.1 billion and $626 million as of June 30, 2015 and December 31, 2014, respectively.

**Table 17: Loan Portfolio Composition**

| (Dollars in millions) | June 30, 2015 Loans | June 30, 2015 % of Total | December 31, 2014 Loans | December 31, 2014 % of Total |
|---|---|---|---|---|
| **Credit Card:** | | | | |
| Domestic credit card[1] | $ 78,984 | 37.7% | $ 77,704 | 37.3% |
| International credit card | 8,219 | 3.9 | 8,172 | 3.9 |
| Total credit card | 87,203 | 41.6 | 85,876 | 41.2 |
| **Consumer Banking:** | | | | |
| Auto | 39,991 | 19.1 | 37,824 | 18.2 |
| Home loan | 27,595 | 13.1 | 30,035 | 14.4 |
| Retail banking | 3,590 | 1.7 | 3,580 | 1.7 |
| Total consumer banking | 71,176 | 33.9 | 71,439 | 34.3 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | 22,886 | 10.9 | 23,137 | 11.1 |
| Commercial and industrial | 27,660 | 13.2 | 26,972 | 12.9 |
| Total commercial lending | 50,546 | 24.1 | 50,109 | 24.0 |
| Small-ticket commercial real estate | 685 | 0.3 | 781 | 0.4 |
| Total commercial banking | 51,231 | 24.4 | 50,890 | 24.4 |
| Other loans | 95 | 0.1 | 111 | 0.1 |
| Total loans held for investment | $ 209,705 | 100.0% | $ 208,316 | 100.0% |

(1) Includes installment loans of $107 million and $144 million as of June 30, 2015 and December 31, 2014, respectively.

### *Commercial Loans*

For purposes of portfolio risk management, we aggregate our commercial loan portfolio according to market segmentation primarily based on standard industry codes. Table 18 summarizes our commercial loan portfolio (excluding loans held for sale) by industry classification as of June 30, 2015 and December 31, 2014.

**Table 18: Commercial Loans by Industry[1]**

| (Percentage of portfolio) | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Real estate[2] | 40% | 41% |
| Finance and insurance | 12 | 12 |
| Oil and gas | 7 | 7 |
| Health care | 5 | 5 |
| Business services | 5 | 5 |
| Public administration | 5 | 5 |
| Construction and land | 5 | 4 |
| Educational services | 5 | 4 |
| Retail trade | 4 | 4 |
| Transportation | 3 | 4 |
| Other | 9 | 9 |
| Total | 100% | 100% |

(1) Industry categories are based on our interpretation of the North American Industry Classification System codes as they pertain to each individual loan.
(2) Primarily consists of loans secured by commercial real estate.

***Acquired Loans***

Our portfolio of loans held for investment includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. See "MD&A—Glossary and Acronyms" for the definition of ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition. Acquired Loans accounted for based on expected cash flows to be collected were $21.0 billion as of June 30, 2015 compared to $23.5 billion as of December 31, 2014.

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

***Home Loans***

The substantial majority of our home loan portfolio was acquired in the ING Direct and CCB acquisitions, and they accounted for 99.1% and 98.9% of our total Acquired Loans as of June 30, 2015 and December 31, 2014, respectively. The expected cash flows for our acquired home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield.

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

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

**Table 19: Home Loans - Risk Profile by Lien Priority**

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Loans | | Acquired Loans | | Total Home Loans | |
| *(Dollars in millions)* | Amount | % of Total | Amount | % of Total | Amount | % of Total |
| **Lien type:** | | | | | | |
| 1st lien | **$ 5,807** | **21.0%** | **$ 20,444** | **74.1%** | **$ 26,251** | **95.1%** |
| 2nd lien | **1,009** | **3.7** | **335** | **1.2** | **1,344** | **4.9** |
| Total | **$ 6,816** | **24.7%** | **$ 20,779** | **75.3%** | **$ 27,595** | **100.0%** |

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

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

Table 20 provides a sensitivity analysis of the Acquired Loans in our home loan portfolio as of June 30, 2015. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact results that are presented below.

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

| *(Dollars in millions)* | June 30, 2015 | Estimated Impact |
|---|---|---|
| Expected cash flows | **$ 24,672** | **$ (158)** |
| Accretable yield | **3,926** | **(14)** |
| Allowance for loan and lease losses | **33** | **144** |

[1] The estimated impact is the change in the balance as of June 30, 2015 from the hypothetical decline of 10% in the home price index. Changes in the accretable yield would be recognized in interest income in our consolidated statements of income over the life of the loans. Changes in the allowance for loan and lease losses would be recognized immediately in the provision for credit losses in the consolidated statements of income.

## Credit Risk Measurement

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

We underwrite most consumer loans using proprietary models, which are typically based on credit bureau data, including borrower credit scores, along with application information and, where applicable, collateral and deal structure data. We continuously adjust our management of credit lines and collection strategies based on customer behavior and risk profile changes. We use borrower credit scores for subprime classification, for competitive benchmarking and, in some cases, to drive product segmentation decisions.

The following table provides details on the credit scores of our domestic credit card and auto loan portfolios as of June 30, 2015, December 31, 2014 and June 30, 2014.

**Table 21: Credit Score Distribution**

| *(Percentage of portfolio)* | June 30, 2015 | December 31, 2014 | June 30, 2014 |
|---|---|---|---|
| **Domestic credit card - Refreshed FICO scores:[1]** | | | |
| Greater than 660 | **67%** | 68% | 69% |
| 660 or below | **33** | 32 | 31 |
| Total | **100%** | 100% | 100% |
| **Auto - At origination FICO scores:[2]** | | | |
| Greater than 660 | **49%** | 47% | 45% |
| 621 - 660 | **17** | 17 | 17 |
| 620 or below | **34** | 36 | 38 |
| Total | **100%** | 100% | 100% |

[1] Credit scores generally represent FICO scores. These scores are obtained from one of the major credit bureaus at origination and are refreshed monthly thereafter. We approximate non-FICO credit scores to comparable FICO scores for consistency purposes. Balances for which no credit score is available or the credit score is invalid are included in the 660 or below category.

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

We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio.

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

***Delinquency Rates***

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the customer’s due date, measured at the reporting date. Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due but are currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for domestic credit card loans, as we continue to classify the substantial majority of domestic credit card loans as performing until the account is charged-off, typically when the account is 180 days past due. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories. We provide additional information on our credit quality metrics above under “Business Segment Financial Performance.”

Table 22 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of June 30, 2015 and December 31, 2014.

**Table 22: 30+ Day Delinquencies**

| | June 30, 2015 | | | | December 31, 2014 | | | |
|---|---|---|---|---|---|---|---|---|
| | 30+ Day Performing Delinquencies | | 30+ Day Delinquencies | | 30+ Day Performing Delinquencies | | 30+ Day Delinquencies | |
| *(Dollars in millions)* | Amount | Rate[(1)] | Amount | Rate[(1)] | Amount | Rate[(1)] | Amount | Rate[(1)] |
| **Credit Card:** | | | | | | | | |
| Domestic credit card | **$ 2,243** | **2.84%** | **$ 2,243** | **2.84%** | $ 2,538 | 3.27% | $ 2,538 | 3.27% |
| International credit card | **218** | **2.65** | **270** | **3.29** | 240 | 2.94 | 294 | 3.60 |
| Total credit card | **2,461** | **2.82** | **2,513** | **2.88** | 2,778 | 3.24 | 2,832 | 3.30 |
| **Consumer Banking:** | | | | | | | | |
| Auto | **2,233** | **5.58** | **2,393** | **5.98** | 2,486 | 6.57 | 2,682 | 7.09 |
| Home loan[(2)] | **46** | **0.17** | **263** | **0.95** | 64 | 0.21 | 302 | 1.01 |
| Retail banking | **24** | **0.66** | **46** | **1.28** | 23 | 0.64 | 40 | 1.11 |
| Total consumer banking[(2)] | **2,303** | **3.24** | **2,702** | **3.80** | 2,573 | 3.60 | 3,024 | 4.23 |
| **Commercial Banking:** | | | | | | | | |
| Commercial and multifamily real estate | **19** | **0.08** | **40** | **0.17** | 85 | 0.37 | 117 | 0.51 |
| Commercial and industrial | **96** | **0.35** | **276** | **1.00** | 15 | 0.05 | 73 | 0.27 |
| Total commercial lending | **115** | **0.23** | **316** | **0.62** | 100 | 0.20 | 190 | 0.38 |
| Small-ticket commercial real estate | **2** | **0.30** | **5** | **0.78** | 6 | 0.72 | 10 | 1.28 |
| Total commercial banking | **117** | **0.23** | **321** | **0.63** | 106 | 0.21 | 200 | 0.39 |
| Other loans | **6** | **6.23** | **13** | **13.55** | 3 | 2.84 | 14 | 12.23 |
| Total[(2)] | **$ 4,887** | **2.33** | **$ 5,549** | **2.65** | $ 5,460 | 2.62 | $ 6,070 | 2.91 |

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

(2) Excluding the impact of Acquired Loans, the 30+ day performing delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 0.68%, 4.57% and 2.59%, respectively, as of June 30, 2015, and 0.94%, 5.34%, and 2.95%, respectively, as of December 31, 2014. Excluding the impact of Acquired Loans, the 30+ day delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 3.85%, 5.36% and 2.94%, respectively, as of June 30, 2015, and 4.45%, 6.28%, and 3.28%, respectively, as of December 31, 2014.

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

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total Loans[1] | Amount | % of Total Loans[1] |
| Total loans held for investment | **$ 209,705** | **100.00%** | $ 208,316 | 100.00% |
| **Delinquency status:** | | | | |
| 30 – 59 days | **$ 2,645** | **1.26%** | $ 2,841 | 1.36% |
| 60 – 89 days | **1,262** | **0.60** | 1,424 | 0.68 |
| 90 + days | **1,642** | **0.79** | 1,805 | 0.87 |
| Total | **$ 5,549** | **2.65%** | $ 6,070 | 2.91% |
| **Geographic region:** | | | | |
| Domestic | **$ 5,279** | **2.52%** | $ 5,776 | 2.77% |
| International | **270** | **0.13** | 294 | 0.14 |
| Total | **$ 5,549** | **2.65%** | $ 6,070 | 2.91% |

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

Table 24 summarizes loans that were 90 days or more past due as to interest or principal and still accruing interest as of June 30, 2015 and December 31, 2014. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council (“FFIEC”), we generally continue to accrue interest and fees on domestic credit card loans through the date of charge-off, which is typically in the period the account becomes 180 days past due. While domestic credit card loans typically remain on accrual status until the loan is charged-off, we reduce the balance of our credit card receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

**Table 24: 90+ Day Delinquent Loans Accruing Interest**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total Loans[1] | Amount | % of Total Loans[1] |
| **Loan category:** | | | | |
| Credit card | **$ 1,041** | **1.19%** | $ 1,254 | 1.46% |
| Consumer banking | **1** | **0.00** | 1 | 0.00 |
| Commercial banking | **6** | **0.01** | 8 | 0.01 |
| Total | **$ 1,048** | **0.50** | $ 1,263 | 0.61 |
| **Geographic region:** | | | | |
| Domestic | **$ 984** | **0.49%** | $ 1,190 | 0.59% |
| International | **64** | **0.78** | 73 | 0.90 |
| Total | **$ 1,048** | **0.50** | $ 1,263 | 0.61 |

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

### *Nonperforming Loans and Nonperforming Assets*

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

Table 25 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of June 30, 2015 and December 31, 2014. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value. We provide additional information on our credit quality metrics above under "Business Segment Financial Performance."

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

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total Loans HFI | Amount | % of Total Loans HFI |
| **Nonperforming loans held for investment:** | | | | |
| **Credit Card:** | | | | |
| International credit card | **$ 68** | **0.83%** | $ 70 | 0.86% |
| Total credit card | **68** | **0.08** | 70 | 0.08 |
| **Consumer Banking:** | | | | |
| Auto | **160** | **0.40** | 197 | 0.52 |
| Home loan[2] | **313** | **1.13** | 330 | 1.10 |
| Retail banking | **28** | **0.79** | 22 | 0.61 |
| Total consumer banking[2] | **501** | **0.70** | 549 | 0.77 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **27** | **0.12** | 62 | 0.27 |
| Commercial and industrial | **433** | **1.56** | 106 | 0.39 |
| Total commercial lending | **460** | **0.91** | 168 | 0.33 |
| Small-ticket commercial real estate | **3** | **0.47** | 7 | 0.96 |
| Total commercial banking | **463** | **0.90** | 175 | 0.34 |
| Other loans | **10** | **10.68** | 15 | 13.37 |
| Total nonperforming loans held for investment[2][3] | **$ 1,042** | **0.50** | $ 809 | 0.39 |
| **Other nonperforming assets:[4]** | | | | |
| Foreclosed property[5] | **$ 126** | **0.06%** | $ 139 | 0.06% |
| Other assets[6] | **178** | **0.08** | 183 | 0.09 |
| Total other nonperforming assets | **304** | **0.14** | 322 | 0.15 |
| Total nonperforming assets | **$ 1,346** | **0.64** | $ 1,131 | 0.54 |

(1) We recognized interest income for loans classified as nonperforming of $14 million and $12 million in the first six months of 2015 and 2014, respectively. Interest income forgone related to nonperforming loans was $28 million and $29 million in the first six months of 2015 and 2014, respectively. Forgone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(2) Excluding the impact of Acquired Loans, the nonperforming loan ratio for our home loan portfolio, total consumer banking and total nonperforming loans held for investment was 4.59%, 1.00% and 0.55%, respectively, as of June 30, 2015, compared to 4.86%, 1.14% and 0.44%, respectively, as of December 31, 2014.

(3) Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.80% and 0.62% as of June 30, 2015 and December 31, 2014, respectively.

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

(5) Includes foreclosed properties related to Acquired Loans of $102 million and $101 million as of June 30, 2015 and December 31, 2014, respectively.

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

***Net Charge-Offs***

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Net charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred to recover charged-off loans are recorded as collection expenses and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off policy for loans varies based on the loan type. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for information on our charge-off policy for each of our loan categories.

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

**Table 26: Net Charge-Offs**

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| *(Dollars in millions)* | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] |
| **Credit Card:** | | | | | | | | |
| Domestic credit card | **$ 650** | **3.42%** | $ 610 | 3.52% | **$ 1,314** | **3.49 %** | $ 1,310 | 3.77% |
| International credit card | **53** | **2.65** | 75 | 3.93 | **108** | **2.73** | 155 | 4.05 |
| Total credit card | **703** | **3.35** | 685 | 3.56 | **1,422** | **3.42** | 1,465 | 3.79 |
| **Consumer Banking:** | | | | | | | | |
| Auto | **121** | **1.22** | 111 | 1.31 | **269** | **1.38** | 245 | 1.48 |
| Home loan[2] | **3** | **0.04** | 5 | 0.05 | **5** | **0.03** | 10 | 0.06 |
| Retail banking | **12** | **1.39** | 6 | 0.70 | **21** | **1.18** | 15 | 0.82 |
| Total consumer banking[2] | **136** | **0.76** | 122 | 0.69 | **295** | **0.83** | 270 | 0.76 |
| **Commercial Banking:** | | | | | | | | |
| Commercial and multifamily real estate | **(2)** | **(0.04)** | (1) | 0.00 | **(4)** | **(0.03)** | 0 | 0.00 |
| Commercial and industrial | **9** | **0.13** | 2 | 0.04 | **13** | **0.09** | 4 | 0.03 |
| Total commercial lending | **7** | **0.05** | 1 | 0.02 | **9** | **0.03** | 4 | 0.02 |
| Small-ticket commercial real estate | **0** | **0.15** | 2 | 0.61 | **1** | **0.32** | 3 | 0.64 |
| Total commercial banking | **7** | **0.05** | 3 | 0.03 | **10** | **0.04** | 7 | 0.03 |
| Other loans | **0** | **(0.79)** | 2 | 2.18 | **0** | **0.44** | 1 | 0.77 |
| Total net charge-offs[2] | **$ 846** | **1.64** | $ 812 | 1.67 | **$ 1,727** | **1.68** | $ 1,743 | 1.79 |
| Average loans held for investment | **$ 206,337** | | $ 194,996 | | **$ 205,768** | | $ 194,362 | |
| Average loans held for investment (excluding Acquired Loans) | **184,897** | | 168,505 | | **183,662** | | 167,237 | |

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

(2) Excluding the impact of Acquired Loans, the net charge-off rates for our home loan portfolio, total consumer banking and total loans held for investment were 0.16%, 1.09% and 1.83%, respectively, for the three months ended June 30, 2015, compared to 0.25%, 1.09% and 1.93%, respectively, for the three months ended June 30, 2014; and 0.13%, 1.19% and 1.88% respectively, for the six months ended June 30, 2015, compared to 0.27%, 1.23% and 2.08%, respectively, for the six months ended June 30, 2014.

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

***Loan Modifications and Restructurings***

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

Table 27 presents our recorded investment of loans modified in TDRs as of June 30, 2015 and December 31, 2014. It excludes loan modifications that do not meet the definition of a TDR and Acquired Loans accounted for based on expected cash flows, which we track and report separately.

**Table 27: Loan Modifications and Restructurings**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total Modifications | Amount | % of Total Modifications |
| **Modified and restructured loans:** | | | | |
| Credit card | **$ 670** | **40.2%** | $ 692 | 41.9% |
| Consumer banking: | | | | |
| Auto | **461** | **27.7** | 435 | 26.3 |
| Home loan | **215** | **12.9** | 218 | 13.2 |
| Retail banking | **38** | **2.3** | 35 | 2.1 |
| Total consumer banking | **714** | **42.9** | 688 | 41.6 |
| Commercial banking | **281** | **16.9** | 272 | 16.5 |
| Total | **$ 1,665** | **100.0%** | $ 1,652 | 100.0% |
| **Status of modified and restructured loans:** | | | | |
| Performing | **$ 1,221** | **73.4%** | $ 1,203 | 72.8% |
| Nonperforming | **444** | **26.6** | 449 | 27.2 |
| Total | **$ 1,665** | **100.0%** | $ 1,652 | 100.0% |

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

In the Consumer Banking business, the majority of our modified loans receive an extension, while a portion receive an interest rate reduction or principal reduction. Their impairment is determined using the present value of expected cash flows or a collateral evaluation for certain auto and home loans where the collateral value is lower than the recorded investment. In the Commercial Banking business, the majority of modified loans receive an extension, with a portion of these loans receiving an interest rate reduction. The impairment on modified commercial loans is generally determined based on the underlying collateral value. We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in “Note 4—Loans.”

***Impaired Loans***

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Generally, we report loans as impaired based on the method for measuring impairment in accordance with applicable accounting guidance. Loans defined as individually impaired include larger balance commercial nonperforming loans and TDRs. Loans held for sale are not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude Acquired Loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred.

Impaired loans, including TDRs, totaled $2.2 billion and $1.9 billion as of June 30, 2015 and December 31, 2014, respectively. Loans modified in TDRs accounted for $1.7 billion of impaired loans as of both June 30, 2015 and December 31, 2014. We provide additional information on our impaired loans, including the allowance for loan and lease losses 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. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses under "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K.

Our allowance for loan and lease losses increased by $293 million to $4.7 billion as of June 30, 2015 from December 31, 2014. The allowance coverage ratio increased by 13bps to 2.23% as of June 30, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by continued loan growth in our domestic credit card and auto loan portfolios, higher loss expectations on recent auto loan originations as well as adverse market conditions impacting certain oil and gas portfolios and certain components of our transportation loan portfolio within our Commercial Banking business.

Table 28 presents changes in our allowance for loan and lease losses for the second quarter and first six months of 2015 and 2014, and details the provision for credit losses recognized in our consolidated statements of income and charge-offs and recoveries by portfolio segment.

**Table 28: Allowance for Loan and Lease Losses Activity**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | 2014 | 2015 | 2014 |
| Balance at beginning of period | $ 4,405 | $ 4,098 | $ 4,383 | $ 4,315 |
| Provision for credit losses[1] | **1,115** | 701 | **2,042** | 1,424 |
| Charge-offs: | | | | |
| **Credit Card:** | | | | |
| Domestic credit card | **(890)** | (867) | **(1,814)** | (1,831) |
| International credit card | **(98)** | (128) | **(196)** | (259) |
| Total credit card | **(988)** | (995) | **(2,010)** | (2,090) |
| **Consumer Banking:** | | | | |
| Auto | **(203)** | (183) | **(436)** | (388) |
| Home loan | **(5)** | (8) | **(9)** | (19) |
| Retail banking | **(17)** | (14) | **(30)** | (29) |
| Total consumer banking | **(225)** | (205) | **(475)** | (436) |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **(1)** | — | **(1)** | (2) |
| Commercial and industrial | **(10)** | (6) | **(17)** | (10) |
| Total commercial lending | **(11)** | (6) | **(18)** | (12) |
| Small-ticket commercial real estate | **—** | (2) | **(2)** | (3) |
| Total commercial banking | **(11)** | (8) | **(20)** | (15) |
| Other loans | **(2)** | (4) | **(5)** | (6) |
| Total charge-offs | **(1,226)** | (1,212) | **(2,510)** | (2,547) |
| Recoveries: | | | | |
| **Credit Card:** | | | | |
| Domestic credit card | **240** | 257 | **500** | 521 |
| International credit card | **45** | 53 | **88** | 104 |
| Total credit card | **285** | 310 | **588** | 625 |
| **Consumer Banking:** | | | | |
| Auto | **82** | 72 | **167** | 143 |
| Home loan | **2** | 3 | **4** | 9 |
| Retail banking | **5** | 8 | **9** | 14 |
| Total consumer banking | **89** | 83 | **180** | 166 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **3** | 1 | **5** | 2 |
| Commercial and industrial | **1** | 4 | **4** | 6 |
| Total commercial lending | **4** | 5 | **9** | 8 |
| Small-ticket commercial real estate | **—** | — | **1** | — |
| Total commercial banking | **4** | 5 | **10** | 8 |
| Other loans | **2** | 2 | **5** | 5 |
| Total recoveries | **380** | 400 | **783** | 804 |
| Net charge-offs | **(846)** | (812) | **(1,727)** | (1,743) |
| Other changes[2] | **2** | 11 | **(22)** | 2 |
| Balance at end of period | **$ 4,676** | $ 3,998 | **$ 4,676** | $ 3,998 |
| Allowance for loan and lease losses as a percentage of loans held for investment | | | **2.23%** | 2.01% |

[1] The total provision for credit losses reported in our consolidated statements of income consists of a provision for loan and lease losses and a provision for unfunded lending commitments. This table only presents the provision for loan and lease losses and does not include the provision for unfunded lending commitments of $14 million and $22 million in the second quarter and first six months of 2015, respectively, and a provision of $3 million and $15 million in the second quarter and first six months of 2014, respectively.

[2] Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

Table 29 presents an allocation of our allowance for loan and lease losses by portfolio segment as of June 30, 2015 and December 31, 2014.

**Table 29: Allocation of the Allowance for Loan and Lease Losses**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total Loans HFI | Amount | % of Total Loans HFI |
| **Credit Card:** | | | | |
| Domestic credit card | **$ 3,018** | **3.82%** | $ 2,878 | 3.70% |
| International credit card | **306** | **3.71** | 326 | 3.99 |
| Total credit card | **3,324** | **3.81** | 3,204 | 3.73 |
| **Consumer Banking:** | | | | |
| Auto | **744** | **1.86** | 661 | 1.75 |
| Home loan[1] | **65** | **0.24** | 62 | 0.21 |
| Retail banking | **66** | **1.86** | 56 | 1.58 |
| Total consumer banking[1] | **875** | **1.23** | 779 | 1.09 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **143** | **0.63** | 155 | 0.67 |
| Commercial and industrial | **324** | **1.17** | 229 | 0.85 |
| Total commercial lending | **467** | **0.93** | 384 | 0.77 |
| Small-ticket commercial real estate | **5** | **0.72** | 11 | 1.43 |
| Total commercial banking | **472** | **0.92** | 395 | 0.78 |
| Other loans | **5** | **5.13** | 5 | 4.68 |
| Total allowance for loan and lease losses | **$ 4,676** | **2.23** | $ 4,383 | 2.10 |
| **Total allowance coverage ratios:** | | | | |
| Period-end loans held for investment | **$ 209,705** | **2.23** | $ 208,316 | 2.10 |
| Period-end loans held for investment (excluding Acquired Loans) | **188,735** | **2.46** | 184,816 | 2.36 |
| Nonperforming loans[2] | **1,042** | **448.48** | 809 | 541.86 |
| **Allowance coverage ratios by loan category:[3]** | | | | |
| Credit card (30+ day delinquent loans) | **2,513** | **132.24** | 2,832 | 113.13 |
| Consumer banking (30+ day delinquent loans) | **2,702** | **32.41** | 3,024 | 25.76 |
| Commercial banking (nonperforming loans) | **463** | **102.19** | 175 | 225.86 |

(1) Excluding the impact of Acquired Loans, the coverage ratios for our home loan portfolio and total consumer banking were 0.47% and 1.67%, respectively, as of June 30, 2015, compared to 0.52% and 1.56%, respectively, as of December 31, 2014.

(2) The allowance for loan and lease losses for both of nonperforming and performing loans as a percentage of nonperforming loans, excluding the allowance for loan and lease losses related to our domestic credit card loans, was 159.05% and 186.07% as of June 30, 2015 and December 31, 2014, respectively.

(3) Calculated based on the total allowance for loan and lease losses divided by the outstanding balance of loans within the specified loan category.

## LIQUIDITY RISK PROFILE

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

Table 30 below presents the composition of our liquidity reserves as of June 30, 2015 and December 31, 2014.

**Table 30: Liquidity Reserves**

| *(Dollars in millions)* | **June 30, 2015** | December 31, 2014 |
| --- | --- | --- |
| Cash and cash equivalents | **$ 7,156** | $ 7,242 |
| Investment securities available for sale, at fair value | **39,136** | 39,508 |
| Investment securities held to maturity, at fair value | **24,511** | 23,634 |
| Total investment securities portfolio[(1)(2)] | **63,647** | 63,142 |
| FHLB borrowing capacity secured by loans | **28,243** | 29,547 |
| Outstanding FHLB advances and letters of credit secured by loans | **(10,608)** | (17,720) |
| Investment securities encumbered for Public Funds and others | **(11,033)** | (10,631) |
| Total liquidity reserves | **$ 77,405** | $ 71,580 |

(1) The weighted-average life of our securities was approximately 6.0 years and 5.7 years as of June 30, 2015 and December 31, 2014, respectively.

(2) As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties and to secure trust and public deposits and other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $2.1 billion and $3.5 billion as of June 30, 2015 and December 31, 2014, respectively. We also pledged securities held to maturity with a carrying value of $9.3 billion and $9.0 billion as of June 30, 2015 and December 31, 2014, respectively.

Our liquidity reserves increased by $5.8 billion in the first six months of 2015 to $77.4 billion as of June 30, 2015 from December 31, 2014. This increase was primarily driven by lower FHLB advances resulting from lower liquidity-related short-term funding needs due to expected seasonality. See “MD&A—Risk Management” in our 2014 Form 10-K for additional information on our management of liquidity risk.

In September 2014, the Federal Banking Agencies issued final rules implementing the Basel III Liquidity Coverage Ratio in the United States (the “Final LCR Rule”). The Final LCR Rule applies to institutions with $250 billion or more in total consolidated assets or $10 billion or more in total consolidated on-balance sheet foreign exposure, and their respective consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets. The LCR is calculated by dividing the amount of an institution’s high quality, unencumbered liquid assets, as defined and calculated in accordance with the haircuts and limitations of the Final LCR Rule, by its estimated net cash outflow, which are determined by applying assumed outflow factors in the Final LCR Rule.

The Final LCR Rule phases-in the minimum LCR standard as follows: 80% by January 1, 2015; 90% by January 1, 2016; and 100% by January 1, 2017 and thereafter. The Final LCR Rule came into effect in January 2015 and requires us to calculate the LCR as of the last business day of each month from January 2015 until July 2016, and then on a daily basis thereafter. At June 30, 2015, we exceeded the fully phased-in LCR requirement. The calculation and the underlying components are based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and are subject to change based on changes to future regulations and interpretations.

**Borrowing Capacity**

We filed a new shelf registration statement with the U.S. Securities and Exchange Commission (“SEC”) on March 31, 2015, which expires in March 2018. Under this shelf registration, we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary 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.

In addition to our issuance capacity under the shelf registration statement, we also have access to FHLB advances with a maximum borrowing capacity of $28.3 billion as of June 30, 2015, of which $17.6 billion was still available to us to borrow as of June 30, 2015. To secure this borrowing capacity, we pledged loan collateral with an outstanding balance of $35.0 billion and security collateral with a fair value of $12 million as of June 30, 2015. The ability to draw down funding is based on membership status and the amount is dependent upon the Banks’ ability to post collateral. Our FHLB membership is secured by our investment in FHLB stock of $459 million and $807 million as of June 30, 2015 and December 31, 2014, respectively, which was determined in part based on our outstanding advances. We also have access to the Federal Reserve Discount Window through which we had a borrowing capacity of $15.5 billion as of June 30, 2015. Although available, we do not view this borrowing capacity as a primary source of liquidity and did not utilize it in 2014 or the first six months of 2015.

**Funding**

The Company's primary source of funding comes from deposits, which provide us with a stable and relatively low cost of funds. In addition to deposits, the Company raises funding through the purchase of federal funds, the issuance of brokered deposits, FHLB advances secured by certain portions of our loan and securities portfolios, the issuance of senior and subordinated notes, the issuance of securitized debt obligations and other borrowings. A key objective in our use of these markets is to maintain access to a diversified mix of wholesale funding sources.

***Deposits***

Table 31 provides a comparison of the composition of our deposits, average balances, interest expense and average deposit rates for the first six months of 2015 and full year of 2014.

**Table 31: Deposit Composition and Average Deposit Rates**

| | Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Period End Balance** | **Average Balance** | **Interest Expense** | **% of Average Deposits** | **Average Deposit Rate** |
| Non-interest bearing accounts | **$ 25,123** | **$ 25,026** | **N/A** | **12.0%** | **N/A** |
| Interest-bearing checking accounts[1] | **42,691** | **42,644** | **$ 103** | **20.5** | **0.49%** |
| Saving deposits[2] | **132,274** | **131,958** | **387** | **63.3** | **0.59** |
| Time deposits less than $100,000 | **5,692** | **5,727** | **31** | **2.7** | **1.09** |
| Total core deposits | **205,780** | **205,355** | **521** | **98.5** | **0.51** |
| Time deposits of $100,000 or more | **1,956** | **2,116** | **20** | **1.0** | **1.88** |
| Foreign time deposits[3] | **1,044** | **1,030** | **2** | **0.5** | **0.34** |
| Total deposits | **$ 208,780** | **$ 208,501** | **$ 543** | **100.0%** | **0.52** |

| | Twelve Months Ended December 31, 2014 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Period End Balance** | **Average Balance** | **Interest Expense** | **% of Average Deposits** | **Average Deposit Rate** |
| Non-interest bearing accounts | $ 25,081 | $ 24,639 | N/A | 12.0% | N/A |
| Interest-bearing checking accounts[1] | 41,022 | 41,702 | $ 204 | 20.3 | 0.49% |
| Saving deposits[2] | 130,156 | 129,868 | 752 | 63.1 | 0.58 |
| Time deposits less than $100,000 | 6,051 | 5,856 | 75 | 2.8 | 1.29 |
| Total core deposits | 202,310 | 202,065 | 1,031 | 98.2 | 0.51 |
| Time deposits of $100,000 or more | 2,261 | 2,560 | 53 | 1.3 | 2.07 |
| Foreign time deposits[3] | 977 | 1,050 | 4 | 0.5 | 0.34 |
| Total deposits | $ 205,548 | $ 205,675 | $ 1,088 | 100.0% | 0.53 |

(1) Includes Negotiable Order of Withdrawal ("NOW") accounts.

(2) Includes Money Market Deposit Accounts ("MMDA").

(3) Substantially all of our foreign time deposits were greater than $100,000 as of both June 30, 2015 and December 31, 2014.

Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Those brokered deposits are reported as saving deposits and time deposits in the above table and totaled $5.1 billion as of both June 30, 2015 and December 31, 2014.

The Federal Deposit Issuance Corporation ("FDIC") limits the use of brokered deposits to "well-capitalized" insured depository institutions and, with a waiver from the FDIC, to "adequately capitalized" institutions. COBNA and CONA were "well-capitalized," as defined under the federal banking regulatory guidelines, as of both June 30, 2015 and December 31, 2014, and therefore were permitted to maintain brokered deposits.

***Short-Term Borrowings and Long-Term Debt***

We access the capital markets to meet our funding needs through the issuance of senior and subordinated notes, securitized debt obligation transactions, and federal funds purchased and securities loaned or sold under agreements to repurchase. In addition, we may utilize short-term and long-term FHLB advances secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and home equity lines of credit.

Our short-term borrowings include those borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. The short-term borrowings, which consist of federal funds purchased and securities loaned or sold under agreements to repurchase, and short-term FHLB advances, decreased by $15.2 billion to $1.9 billion as of June 30, 2015 from December 31, 2014. This decrease reflected $16.2 billion in payoffs of FHLB advances, partially offset by an increase of $1.0 billion in federal funds purchased and securities loaned or sold under agreements to repurchase during the first six months of 2015. The decrease in short-term FHLB advances was primarily driven by lower liquidity-related short-term funding needs due to expected seasonality.

Our long-term debt, which consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by $12.5 billion, to $43.9 billion as of June 30, 2015 from December 31, 2014. The increase was primarily attributable to net increases of $9.0 billion in long-term FHLB advances, $2.2 billion in securitized debt obligations and $1.3 billion in unsecured notes.

Table 32 displays the maturity profile, based on contractual maturities, of our short-term borrowings and long-term debt including securitized debt obligations, senior and subordinated notes and other borrowings as of June 30, 2015, and the outstanding balances as of December 31, 2014.

**Table 32: Contractual Maturity Profile of Outstanding Debt**

| | June 30, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Up to 1 Year | > 1 Year to 2 Years | > 2 Years to 3 Years | > 3 Years to 4 Years | > 4 Years to 5 Years | > 5 Years | Total | December 31, 2014 |
| **Short-term borrowings:** | | | | | | | | |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | **$ 1,888** | **$ —** | **$ —** | **$ —** | **$ —** | **$ —** | **$ 1,888** | $ 880 |
| FHLB advances | **—** | **—** | **—** | **—** | **—** | **—** | **—** | 16,200 |
| Total short-term borrowings | **1,888** | **—** | **—** | **—** | **—** | **—** | **1,888** | 17,080 |
| **Long-term debt:** | | | | | | | | |
| Securitized debt obligations | **2,351** | **4,982** | **4,164** | **589** | **1,624** | **75** | **13,785** | 11,624 |
| Senior and subordinated notes: | | | | | | | | |
| Unsecured senior debt | **1,250** | **3,021** | **3,955** | **3,118** | **1,006** | **5,027** | **17,377** | 16,054 |
| Unsecured subordinated debt | **—** | **1,056** | **—** | **—** | **324** | **1,230** | **2,610** | 2,630 |
| Total senior and subordinated notes | **1,250** | **4,077** | **3,955** | **3,118** | **1,330** | **6,257** | **19,987** | 18,684 |
| Other long-term borrowings: | | | | | | | | |
| FHLB advances | **6** | **32** | **11** | **4** | **1** | **10,052** | **10,106** | 1,069 |
| Total long-term debt[1] | **3,607** | **9,091** | **8,130** | **3,711** | **2,955** | **16,384** | **43,878** | 31,377 |
| **Total short-term borrowings and long-term debt** | **$ 5,495** | **$ 9,091** | **$ 8,130** | **$ 3,711** | **$ 2,955** | **$ 16,384** | **$ 45,766** | $ 48,457 |
| Percentage of total | **12%** | **20%** | **18%** | **8%** | **6%** | **36%** | **100%** | 100% |

(1) Includes unamortized discounts, premiums and other cost basis adjustments, which together resulted in a net reduction of $229 million and $233 million as of June 30, 2015 and December 31, 2014, respectively.

We provide additional information on our short-term borrowings and long-term debt under “Consolidated Balance Sheets Analysis—Securitized Debt Obligations,” “Consolidated Balance Sheets Analysis—Other Debt” and in “Note 8—Deposits and Borrowings.”

**Credit Ratings**

Our credit ratings impact our ability to access capital markets and our non-deposit 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 33 provides a summary of the credit ratings for the senior unsecured debt of Capital One Financial Corporation, COBNA and CONA as of June 30, 2015 and December 31, 2014.

**Table 33: Senior Unsecured Debt Credit Ratings**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Capital One Financial Corporation | Capital One Bank (USA), N.A. | Capital One, N.A. | Capital One Financial Corporation | Capital One Bank (USA), N.A. | Capital One, N.A. |
| Moody’s | **Baa1** | **Baa1** | **Baa1** | Baa1 | A3 | A3 |
| S&P | **BBB** | **BBB+** | **BBB+** | BBB | BBB+ | BBB+ |
| Fitch | **A-** | **A-** | **A-** | A- | A- | A- |

As of August 3, 2015, Moody’s, S&P and Fitch have us on a stable outlook. On March 17, 2015, Moody’s announced that they would be adopting a new bank rating methodology that could potentially result in changes in the ratings of the securities of many banks, including Capital One. As a result of this adoption, on May 14, 2015, COF’s subordinated debt and preferred stock ratings received upgrades, while on June 19, 2015, COBNA and CONA’s senior unsecured debt ratings received a one level downgrade.

## MARKET RISK PROFILE

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

**Primary Market Risk Exposures**

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

***Interest Rate Risk***

Interest rate risk, which represents exposure to instruments whose yield or price varies with the 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 re-pricing 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. Our primary exposure is related to the funding of our non-dollar net investments in our International Card business in the U.K. and Canada. Changes in foreign exchange rates affect the value of non-dollar denominated equity invested in our foreign operations and impact our AOCI and related capital ratios. Our intercompany funding exposes our consolidated statements of income to foreign exchange transaction risk, while our equity investments in our foreign operations results in translation risk in AOCI. We manage our transaction risk by entering into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency denominated intercompany borrowings. In the third quarter of 2014, we began entering into net investment hedges to manage our AOCI exposure. We apply hedge accounting to both of the intercompany funding hedges and the net investment hedges.

We measure our total exposure by regularly tracking the equity value of our net equity invested in our U.K. and Canadian foreign operations as well as their funding requirements. We apply a 30 percent U.S. dollar appreciation shock against each of our Great British Pound (“GBP”) and Canadian Dollar (“CAD”) net investment exposures. This shock approximates a 99 percent confidence interval over a one year time horizon for our combined GBP and CAD net investment exposure. Our gross equity exposures were 1.3 billion GBP as of both June 30, 2015 and December 31, 2014, and 630 million CAD and 581 million CAD as of June 30, 2015 and December 31, 2014, respectively. As a result of our derivative management activities, we believe our net exposure to foreign exchange risk is minimal.

**Market Risk Management**

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, altering the duration and re-pricing characteristics of our various assets and liabilities through interest rate derivatives or mitigating the foreign exchange exposure of certain non-dollar denominated equity or transactions through derivatives. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current asset and liability management policy includes the use of derivatives. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts totaled $95.0 billion as of June 30, 2015, compared to $88.6 billion as of December 31, 2014, driven by an increase in our hedging activities.

**Market Risk Measurement**

We have risk management policies and limits established by our Market and Liquidity Risk Policy and approved by the Board of Directors. Our objective is to manage our asset and 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 analysis to measure, assess and manage the impact of changes in interest rates on our net interest income and our economic value of equity and foreign exchange rates on our non-dollar denominated earnings and non-dollar equity investments in foreign operations. We provide additional information below in “Economic Value of Equity.”

We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. Because the federal funds rate was lowered to near zero in December 2008, and since then has remained in a target range of 0% to 0.25%, we use a 50 basis points decrease as our declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is unlikely. In scenarios where a 50 basis points decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

***Net Interest Income Sensitivity***

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

***Economic Value of Equity***

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

Table 34 shows the estimated percentage impact on our projected base-line net interest income and economic value of equity, calculated under the methodology described above, as of June 30, 2015 and December 31, 2014.

**Table 34: Interest Rate Sensitivity Analysis**

| | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Estimated impact on projected base-line net interest income | | |
| +200 basis points | **3.0%** | 4.5% |
| –50 basis points | **(1.6)** | (2.1) |
| Estimated impact on economic value of equity | | |
| +200 basis points | **(5.4)** | (3.4) |
| –50 basis points | **(0.4)** | (1.2) |

Our projected net interest income and economic value of equity sensitivity measures were within our policy limits as of June 30, 2015 and December 31, 2014. In addition to these industry standard measures, we will continue to factor into our internal interest rate risk management decisions the potential impact of alternative interest rate scenarios, such as stressed rate shocks as well as steepening and flattening yield curve scenarios.

***Limitations of Market Risk Measures***

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

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

## SUPERVISION AND REGULATION

We provide information on our Supervision and Regulation in our 2014 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, returns, expenses, capital measures, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; and the assumptions that underlie these matters.

To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995.

Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

- general economic and business conditions in the U.S., the U.K., Canada or our local markets, including conditions affecting employment levels, interest rates, collateral values, consumer income and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment);
- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder and regulations governing bank capital and liquidity standards, including Basel-related initiatives and potential changes to financial accounting and reporting standards;
- 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 and technology infrastructure suitable for the nature of our business;
- our ability to develop digital technology that addresses the needs of our customers;
- our ability to control costs;
- the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States mail service affecting our response rates and consumer payments;
- any significant disruption of, or loss of public confidence in, the internet affecting the ability of our customers to access their accounts and conduct banking transactions;
- our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of new products and services;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees or business partners;
- competition from providers of products and services that compete with our businesses; and

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

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2014 Form 10-K.

## SUPPLEMENTAL TABLE

**Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures[1]**

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Period End Tangible Common Equity** | | |
| Period end stockholders’ equity | **$ 46,659** | $ 45,053 |
| Goodwill and intangible assets[2] | **(15,240)** | (15,383) |
| Noncumulative perpetual preferred stock[3] | **(2,810)** | (1,822) |
| Tangible common equity | **$ 28,609** | $ 27,848 |
| **Quarterly Average Tangible Common Equity** | | |
| Average stockholders' equity | **$ 47,255** | $ 45,576 |
| Average goodwill and intangible assets[2] | **(15,256)** | (15,437) |
| Average noncumulative perpetual preferred stock[3] | **(2,377)** | (1,681) |
| Average tangible common equity | **$ 29,622** | $ 28,458 |
| **Period End Tangible Assets** | | |
| Period end assets | **$ 310,510** | $ 308,167 |
| Goodwill and intangible assets[2] | **(15,240)** | (15,383) |
| Tangible assets | **$ 295,270** | $ 292,784 |
| **Quarterly Average Tangible Assets** | | |
| Average assets | **$ 307,206** | $ 304,153 |
| Average goodwill and intangible assets[2] | **(15,256)** | (15,437) |
| Average tangible assets | **$ 291,950** | $ 288,716 |
| **Non-GAAP TCE ratio** | | |
| TCE ratio[4] | **9.7%** | 9.5% |
| **Capital Ratios** | | |
| Common equity Tier 1 capital ratio[5] | **12.1%** | 12.5% |
| Tier 1 risk-based capital ratio[6] | **13.3** | 13.2 |
| Total risk-based capital ratio[7] | **15.1** | 15.1 |
| Tier 1 leverage ratio[8] | **11.1** | 10.8 |
| Supplementary leverage ratio[9] | **9.6** | N/A |
| Risk-weighted assets[10] | **$ 246,106** | $ 236,944 |
| Average assets for the leverage ratio | **293,291** | 291,243 |
| **Regulatory Capital Ratios Under Basel III Standardized Approach** | | |
| Common equity excluding AOCI | **$ 44,246** | $ 43,661 |
| Adjustments: | | |
| AOCI[11][12] | **(128)** | (69) |
| Goodwill[2] | **(13,809)** | (13,805) |
| Intangible Assets[2][12] | **(413)** | (243) |
| Other | **(92)** | (10) |
| Common equity Tier 1 capital | **29,804** | 29,534 |
| Tier 1 capital instruments[3] | **2,810** | 1,822 |
| Additional Tier 1 capital adjustments | **—** | (1) |
| Tier 1 capital | **32,614** | 31,355 |
| Tier 2 capital instruments[3] | **1,403** | 1,542 |
| Qualifying allowance for loan and lease losses | **3,098** | 2,981 |
| Additional Tier 2 capital adjustments | **—** | 1 |
| Tier 2 capital | **4,501** | 4,524 |
| Total risk-based capital[13] | **$ 37,115** | $ 35,879 |

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

(2) Includes impact of related deferred taxes.

(3) Includes related surplus.

(4) Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets.

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

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

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

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

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

(10) As of January 1, 2015, risk-weighted assets are calculated under the Basel III Standardized Approach, subject to transition provisions. Prior to January 1, 2015 risk-weighted assets were calculated under Basel I.

(11) Amounts presented are net of tax.

(12) Amounts based on transition provisions for regulatory capital deductions and adjustments of 20% for 2014 and 40% for 2015.

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

## *Glossary and Acronyms*

**2012 U.S. card acquisition:** 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, consumer credit card program and certain other retained assets and liabilities).

**2014 Stock Repurchase Program:** On March 26, 2014, we announced that our Board of Directors had authorized the repurchase of up to $2.5 billion of shares of our common stock. The 2014 Stock Repurchase Program was completed as of March 31, 2015.

**2015 Stock Repurchase Program:** On March 11, 2015, we announced that our Board of Directors had authorized the repurchase of up to $3.125 billion of shares of our common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016.

**Acquired Loans:** Refers to the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions, and a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition, 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" or "ASC 310-30"). The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows from the previous estimate resulting from further credit deterioration will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, Acquired Loans are not classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference will absorb the majority of the losses associated with these loans.

**Annual Report:** References to our "2014 Form 10-K" or "2014 Annual Report" or "this Report" are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**Banks:** Refers to COBNA and CONA.

**Basel Committee:** The Basel Committee on Banking Supervision.

**Basel III Advanced Approaches:** The Basel III Advanced Approaches is mandatory for those institutions with consolidated total assets of $250 billion or more or consolidated total on-balance-sheet foreign exposure of $10 million or more. The Final Rule modified the Advanced Approaches version of Basel II to create the Basel III Advanced Approaches.

**Basel III Standardized Approach:** The Final Rule modified Basel I to create the Basel III Standardized Approach, which requires for Basel III Advanced Approaches banking organizations that have yet to exit parallel run to use the Basel III Standardized Approach to calculate regulatory capital, including capital ratios, subject to transition provisions.

**Capital One:** Capital One Financial Corporation and its subsidiaries.

**Carrying value** (with respect to loans)**:** The amount at which a loan is recorded on the consolidated balance sheets. For loans recorded at amortized cost, carrying value is the unpaid principal balance net of unamortized deferred loan origination fees and costs, and unamortized purchase premium or discount. For loans that are or have been on nonaccrual status, the carrying value is also reduced by any net charge-offs that have been recorded and the amount of interest payments applied as a reduction of principal under the cost recovery method. For credit card loans, the carrying value also includes interest that has been billed to the customer. For loans classified as held for sale, carrying value is the lower of carrying value as described in the sentences above, or fair value. For Acquired Loans, the carrying value equals fair value upon acquisition adjusted for subsequent cash collections and yield accreted to date.

**CCB:** Chevy Chase Bank, F.S.B., which was acquired by the Company on February 27, 2009.

**COBNA:** Capital One Bank (USA), National Association, one of our fully owned subsidiaries, which offers credit and debit card products, other lending products and deposit products.

**Common equity Tier 1 capital:** Common equity, related surplus, and retained earnings less accumulated other comprehensive income net of applicable phase-ins, less goodwill and intangibles net of associated deferred tax liabilities and applicable phase-ins, less other deductions, as defined by regulators.

**Company:** Capital One Financial Corporation and its subsidiaries.

**CONA:** Capital One, National Association, one of our fully owned subsidiaries, which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

**Credit risk:** Credit risk is the risk of loss from an obligor's failure to meet the terms of any contract or otherwise fail to perform as agreed.

**Derivative:** A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.

**Discontinued operations:** The operating results of a component of an entity, as defined by ASC 205, that are removed from continuing operations when that component has been disposed of or it is management's intention to sell the component.

**Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"):** Regulatory reform legislation signed into law on July 21, 2010. This law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of the financial services sector.

**Exchange Act:** The Securities Exchange Act of 1934.

**eXtensible Business Reporting Language ("XBRL"):** A language for the electronic communication of business and financial data.

**Federal Banking Agencies:** The Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Issuance Corporation.

**Federal Reserve:** Board of Governors of the Federal Reserve System.

**FICO score:** A measure of consumer credit risk provided by credit bureaus, typically produced from statistical modeling software created by Fair Isaac Corporation utilizing data collected by the credit bureaus.

**Final Basel III Capital Rules:** The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued a rule implementing the Basel III capital framework developed by the Basel Committee on Banking Supervision as well as certain Dodd-Frank Act and other capital provisions.

**Final LCR Rule:** The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued final rules implementing the Basel III liquidity coverage ratio in the United States.

**Final Rule:** A capital rule finalized by the Federal Reserve, the OCC and the FDIC (collectively, the U.S. federal banking agencies) that implements the Basel III capital accord developed by the Basel Committee on Banking Supervision and incorporates certain Dodd-Frank Act capital provisions and updates to the PCA capital requirements.

**Foreign currency derivative contracts:** An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.

**Foreign exchange contracts:** Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

**GreenPoint:** Refers to our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint"), which was closed in 2007.

**GSE** or **Agency:** A government-sponsored enterprise or agency is a financial services corporation created by the United States Congress. Examples of U.S. government agencies include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Government National Mortgage Association (Ginnie Mae) and the Federal Home Loan Banks.

**Impairment:** The condition when the carrying amount of an asset exceeds or is expected to exceed its fair value.

**Impaired loans:** A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.

**Inactive Insured Securitizations:** Securitizations as to which the monoline bond insurers have not made repurchase-related requests or loan file requests to one of our subsidiaries.

**ING Direct acquisition:** On February 17, 2012, we completed the 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.

**Insured securitizations:** Securitizations supported by bond insurance.

**Interest rate sensitivity:** The exposure to interest rate movements.

**Interest rate swaps:** Contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities.

**Investment grade:** Represents Moody’s long-term rating of Baa3 or better; and/or a Standard & Poor’s, Fitch or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered to be non-investment grade.

**Investments in Qualified Affordable Housing Projects:** Capital One invests in private investment funds that make equity investments in multifamily affordable housing properties that provide affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt.

**Investor entities:** Entities that invest in community development entities (“CDE”) that provide debt financing to businesses and non-profit entities in low-income and rural communities.

**Leverage ratio (Basel I guideline):** Tier 1 capital divided by average assets after certain adjustments, as defined by the regulators.

**Liquidity risk:** Liquidity risk is the risk that the Company will not be able to meet its future financial obligations as they come due, or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period.

**Loan-to-value (“LTV”) ratio:** The relationship expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate, autos, etc.) securing the loan.

**Managed basis:** A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

**Market risk:** Market risk is the risk that an institution’s earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates, or other market factors.

**Master netting agreement:** An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

**Mortgage-backed security (“MBS”):** An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

**Mortgage servicing rights (“MSR”):** The right to service a mortgage loan when the underlying loan is sold or securitized. Servicing includes collections for principal, interest and escrow payments from borrowers and accounting for and remitting principal and interest payments to investors.

**Net interest margin:** The result of dividing net interest income by average interest-earning assets.

**Nonperforming loans and leases:** Loans and leases that have been placed on non-accrual status.

**North Fork**: North Fork Bancorporation, Inc., which was acquired by the Company in 2006.

**Operational risk**: The risk of loss, capital impairment, adverse customer experience, or reputational impact resulting from failure to comply with policies and procedures, failed internal processes or systems, or from external events.

**Option-ARM loans:** The option-ARM real estate loan product is an adjustable-rate mortgage loan that initially provides the borrower with the monthly option to make a fully-amortizing, interest-only or minimum fixed payment. After the initial payment option period, usually five years, the recalculated minimum payment represents a fully-amortizing principal and interest payment that would effectively repay the loan by the end of its contractual term.

**Other-than-temporary impairment (“OTTI”):** An impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and its value is not expected to recover through the holding period of the security.

**Public Fund deposits:** Deposits that are derived from a variety of political subdivisions such as school districts and municipalities.

**Purchase volume:** Dollar amount of customer purchases, net of returns.

**Rating agency:** An independent agency that assesses the credit quality and likelihood of default of an issue or issuer and assigns a rating to that issue or issuer.

**Repurchase agreement:** An instrument used to raise short-term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.

**Restructuring charges:** Charges typically from the consolidation or relocation of operations, and reductions in work force.

**Return on average assets:** Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.

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

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

**Risk-weighted assets:** Risk-weighted assets consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. In 2014, the calculation of risk weighted assets is based on the general risk-based approach, as defined by regulators.

**Securitized debt obligations:** A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.

**SOP 03-3:** Statement of Position 03-3 (or ASC 310-30), Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

**Small-ticket commercial real estate:** Our small-ticket commercial real estate portfolio is predominantly low, or no documentation loans, with balances generally less than $2 million. This portfolio was originated on a national basis through a broker network, and is in a run-off mode.

**Subprime:** For purposes of lending in our Credit Card business we generally consider FICO scores of 660 or below, or other equivalent risk scores, to be subprime. For purposes of auto lending in our Consumer Banking business we generally consider borrowers FICO scores of 620 or below to be subprime.

**Tangible common equity (“TCE”):** Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.

**Troubled debt restructuring (“TDR”):** A TDR is deemed to occur when the Company modifies the contractual terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

**U.K. PPI Reserve:** U.K. Payment Protection Insurance customer refund reserve.

**U.S. federal banking agencies:** The Federal Reserve, the OCC and the FDIC.

**U.S. GAAP:** Accounting principles generally accepted in the United States of America. Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S.

**Unfunded commitments:** Legally binding agreements to provide a defined level of financing until a specified future date.

**Variable Interest Entity (“VIE”):** An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity’s operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity’s losses or return.

## *Acronyms*

**ABS:** Asset-backed security

**AOCI:** Accumulated other comprehensive income

**ARM:** Adjustable rate mortgage

**ASC:** Accounting Standard Codification

**bps:** Basis points

**CAD:** Canadian Dollar

**CCAR:** Comprehensive Capital Analysis and Review

**CDE:** Community development entities

**CMBS:** Commercial mortgage-backed securities

**COEP:** Capital One (Europe) plc

**COF:** Capital One Financial Corporation

**CRA:** Community Reinvestment Act

**DUS:** Delegated Underwriting and Servicing

**Fannie Mae:** Federal National Mortgage Association

**FASB:** Financial Accounting Standards Board

**FCA:** U.K. Financial Conduct Authority

**FDIC:** Federal Deposit Issuance Corporation

**FFIEC:** Federal Financial Institutions Examination Council

**FHLB:** Federal Home Loan Banks

**FICO:** Fair Isaac Corporation (credit rating)

**FIRREA:** Financial Institutions Reform, Recovery, and Enforcement Act

**Fitch:** Fitch Ratings

**Freddie Mac:** Federal Home Loan Mortgage Corporation

**FVC:** Fair Value Committee

**GBP:** Great British Pound

**GDP:** Gross domestic product

**Ginnie Mae:** Government National Mortgage Association

**GSE** or **Agencies:** Government Sponsored Enterprise

**HELOCs:** Home Equity Lines of Credit

**HFI:** Held for Investment

**HSBC:** HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc.

**LCR:** Liquidity Coverage Ratio

**LIBOR:** London Interbank Offered Rate

**Moody's:** Moody’s Investors Service

**MSR:** Mortgage servicing rights

**NOW:** Negotiable order of withdrawal

**OTC:** Over-the-counter

**PCA:** Prompt corrective action

**PCCR:** Purchased credit card relationship

**RMBS:** Residential mortgage-backed securities

**S&P:** Standard & Poor's

**SEC:** U.S. Securities and Exchange Commission

**TARP:** Troubled Asset Relief Program

**TAV:** Trade Analytics and Valuation team

**TCE:** Tangible Common Equity

**TDR:** Troubled Debt Restructuring

**UCL:** Unfair Competition Law

**U.S.:** United States of America

**U.K.:** United Kingdom

**VAC:** Valuations Advisory Committee

**Item 1. Financial Statements and Notes**

# CAPITAL ONE FINANCIAL CORPORATION
## CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions, except per share-related data)* | **2015** | **2014** | **2015** | **2014** |
| **Interest income:** | | | | |
| Loans, including loans held for sale | **$ 4,531** | $ 4,279 | **$ 9,071** | $ 8,586 |
| Investment securities | **382** | 409 | **788** | 825 |
| Other | **24** | 24 | **52** | 54 |
| Total interest income | **4,937** | 4,712 | **9,911** | 9,465 |
| **Interest expense:** | | | | |
| Deposits | **272** | 272 | **543** | 548 |
| Securitized debt obligations | **36** | 39 | **69** | 77 |
| Senior and subordinated notes | **80** | 78 | **159** | 155 |
| Other borrowings | **12** | 8 | **27** | 20 |
| Total interest expense | **400** | 397 | **798** | 800 |
| Net interest income | **4,537** | 4,315 | **9,113** | 8,665 |
| Provision for credit losses | **1,129** | 704 | **2,064** | 1,439 |
| Net interest income after provision for credit losses | **3,408** | 3,611 | **7,049** | 7,226 |
| **Non-interest income:** | | | | |
| Service charges and other customer-related fees | **429** | 460 | **866** | 934 |
| Interchange fees, net | **567** | 535 | **1,063** | 975 |
| Total other-than-temporary impairment | **(12)** | (3) | **(21)** | (6) |
| Less: Portion of other-than-temporary impairment recorded in AOCI | **5** | 2 | **(1)** | 0 |
| Net other-than-temporary impairment recognized in earnings | **(7)** | (1) | **(22)** | (6) |
| Other | **146** | 159 | **299** | 270 |
| Total non-interest income | **1,135** | 1,153 | **2,206** | 2,173 |
| **Non-interest expense:** | | | | |
| Salaries and associate benefits | **1,360** | 1,125 | **2,571** | 2,286 |
| Occupancy and equipment | **439** | 447 | **874** | 852 |
| Marketing | **387** | 335 | **762** | 660 |
| Professional services | **334** | 296 | **630** | 583 |
| Communications and data processing | **208** | 203 | **410** | 399 |
| Amortization of intangibles | **111** | 136 | **221** | 279 |
| Other | **468** | 437 | **888** | 852 |
| Total non-interest expense | **3,307** | 2,979 | **6,356** | 5,911 |
| Income from continuing operations before income taxes | **1,236** | 1,785 | **2,899** | 3,488 |
| Income tax provision | **384** | 581 | **913** | 1,160 |
| Income from continuing operations, net of tax | **852** | 1,204 | **1,986** | 2,328 |
| Income (loss) from discontinued operations, net of tax | **11** | (10) | **30** | 20 |
| **Net income** | **863** | 1,194 | **2,016** | 2,348 |
| Dividends and undistributed earnings allocated to participating securities | **(4)** | (4) | **(10)** | (9) |
| Preferred stock dividends | **(29)** | (13) | **(61)** | (26) |
| **Net income available to common stockholders** | **$ 830** | $ 1,177 | **$ 1,945** | $ 2,313 |
| **Basic earnings per common share:** | | | | |
| Net income from continuing operations | **$ 1.50** | $ 2.09 | **$ 3.49** | $ 4.03 |
| Income (loss) from discontinued operations | **0.02** | (0.02) | **0.06** | 0.03 |
| Net income per basic common share | **$ 1.52** | $ 2.07 | **$ 3.55** | $ 4.06 |
| **Diluted earnings per common share:** | | | | |
| Net income from continuing operations | **$ 1.48** | $ 2.06 | **$ 3.45** | $ 3.97 |
| Income (loss) from discontinued operations | **0.02** | (0.02) | **0.06** | 0.03 |
| Net income per diluted common share | **$ 1.50** | $ 2.04 | **$ 3.51** | $ 4.00 |
| Dividends paid per common share | **$ 0.40** | $ 0.30 | **$ 0.70** | $ 0.60 |

See Notes to Consolidated Financial Statements.

**CAPITAL ONE FINANCIAL CORPORATION**
**CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| **Net income** | **$ 863** | $ 1,194 | **$ 2,016** | $ 2,348 |
| **Other comprehensive (loss) income before taxes:** | | | | |
| Net unrealized (losses) gains on securities available for sale | **(259)** | 269 | **(69)** | 498 |
| Net changes in securities held to maturity | **40** | 33 | **73** | 61 |
| Net unrealized (losses) gains on cash flow hedges | **(129)** | 114 | **129** | 144 |
| Foreign currency translation adjustments | **(21)** | 79 | **(62)** | 66 |
| Other | **0** | (3) | **(4)** | (4) |
| Other comprehensive (loss) income before taxes | **(369)** | 492 | **67** | 765 |
| Income tax (benefit) provision related to other comprehensive income | **(184)** | 153 | **34** | 264 |
| Other comprehensive (loss) income, net of tax | **(185)** | 339 | **33** | 501 |
| **Comprehensive income** | **$ 678** | $ 1,533 | **$ 2,049** | $ 2,849 |

See Notes to Consolidated Financial Statements.

**CAPITAL ONE FINANCIAL CORPORATION**
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| *(Dollars in millions, except per share data)* | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Assets:** | | |
| Cash and cash equivalents: | | |
| Cash and due from banks | **$ 2,879** | $ 3,147 |
| Interest-bearing deposits with banks | **4,275** | 4,095 |
| Federal funds sold and securities purchased under agreements to resell | **2** | 0 |
| Total cash and cash equivalents | **7,156** | 7,242 |
| Restricted cash for securitization investors | **253** | 234 |
| Securities available for sale, at fair value | **39,136** | 39,508 |
| Securities held to maturity, at carrying value | **23,668** | 22,500 |
| Loans held for investment: | | |
| Unsecuritized loans held for investment | **175,407** | 171,771 |
| Restricted loans for securitization investors | **34,298** | 36,545 |
| Total loans held for investment | **209,705** | 208,316 |
| Allowance for loan and lease losses | **(4,676)** | (4,383) |
| Net loans held for investment | **205,029** | 203,933 |
| Loans held for sale, at lower of cost or fair value | **1,066** | 626 |
| Premises and equipment, net | **3,602** | 3,685 |
| Interest receivable | **1,056** | 1,079 |
| Goodwill | **13,984** | 13,978 |
| Other assets | **15,560** | 15,382 |
| **Total assets** | **$ 310,510** | $ 308,167 |
| **Liabilities:** | | |
| Interest payable | **$ 262** | $ 254 |
| Deposits: | | |
| Non-interest bearing deposits | **25,123** | 25,081 |
| Interest-bearing deposits | **183,657** | 180,467 |
| Total deposits | **208,780** | 205,548 |
| Securitized debt obligations | **13,785** | 11,624 |
| Other debt: | | |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | **1,888** | 880 |
| Senior and subordinated notes | **19,987** | 18,684 |
| Other borrowings | **10,106** | 17,269 |
| Total other debt | **31,981** | 36,833 |
| Other liabilities | **9,043** | 8,855 |
| **Total liabilities** | **263,851** | 263,114 |
| Commitments, contingencies and guarantees (see Note 14) | | |
| **Stockholders' equity:** | | |
| Preferred stock (par value $.01 per share; 50,000,000 shares authorized; 2,875,000 and 1,875,000 shares issued and outstanding as of June 30, 2015 and December 31, 2014, respectively) | **0** | 0 |
| Common stock (par value $.01 per share; 1,000,000,000 shares authorized; 647,262,316 and 643,557,048 shares issued as of June 30, 2015 and December 31, 2014, respectively, and 542,460,867 and 553,391,311 shares outstanding as of June 30, 2015 and December 31, 2014, respectively) | **6** | 6 |
| Additional paid-in capital, net | **29,063** | 27,869 |
| Retained earnings | **25,540** | 23,973 |
| Accumulated other comprehensive loss | **(397)** | (430) |
| Treasury stock at cost (par value $.01 per share; 104,801,449 and 90,165,737 shares as of June 30, 2015 and December 31, 2014, respectively) | **(7,553)** | (6,365) |
| **Total stockholders' equity** | **46,659** | 45,053 |
| **Total liabilities and stockholders' equity** | **$ 310,510** | $ 308,167 |

See Notes to Consolidated Financial Statements.

# CAPITAL ONE FINANCIAL CORPORATION
## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

| | Preferred Stock | | Common Stock | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions, except shares)* | Shares | Amount | Shares | Amount | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
| **Balance as of December 31, 2014** | 1,875,000 | $ 0 | 643,557,048 | $ 6 | $ 27,869 | $ 23,973 | $ (430) | $ (6,365) | $ 45,053 |
| Comprehensive income | | | | | | **2,016** | **33** | | **2,049** |
| Dividends—common stock | | | **35,028** | **0** | **3** | **(388)** | | | **(385)** |
| Dividends—preferred stock | | | | | | **(61)** | | | **(61)** |
| Purchases of treasury stock | | | | | | | | **(1,188)** | **(1,188)** |
| Issuances of common stock and restricted stock, net of forfeitures | | | **1,847,636** | **0** | **53** | | | | **53** |
| Exercise of stock options and warrants, tax effects of exercises and restricted stock vesting | | | **1,822,604** | **0** | **56** | | | | **56** |
| Issuance of preferred stock (Series E) | **1,000,000** | **0** | | | **988** | | | | **988** |
| Compensation expense for restricted stock awards and stock options | | | | | **94** | | | | **94** |
| **Balance as of June 30, 2015** | **2,875,000** | **$ 0** | **647,262,316** | **$ 6** | **$ 29,063** | **$ 25,540** | **$ (397)** | **$ (7,553)** | **$ 46,659** |

See Notes to Consolidated Financial Statements.

## CAPITAL ONE FINANCIAL CORPORATION
## CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

| *(Dollars in millions)* | Six Months Ended June 30, 2015 | 2014 |
|---|---|---|
| **Operating activities:** | | |
| Income from continuing operations, net of tax | **$ 1,986** | $ 2,328 |
| Income from discontinued operations, net of tax | **30** | 20 |
| Net income | **2,016** | 2,348 |
| Adjustments to reconcile net income to cash provided by operating activities: | | |
| Provision for credit losses | **2,064** | 1,439 |
| Depreciation and amortization, net | **1,012** | 1,017 |
| Net gain on sales of securities available for sale | **(1)** | (12) |
| Impairment losses on securities available for sale | **22** | 6 |
| Gain on sales of loans held for sale | **(39)** | (20) |
| Stock plan compensation expense | **124** | 137 |
| Loans held for sale: | | |
| Originations and purchases | **(3,784)** | (1,920) |
| Proceeds from sales and paydowns | **3,562** | 1,449 |
| Changes in operating assets and liabilities: | | |
| Decrease in interest receivable | **26** | 38 |
| (Increase) decrease in other assets | **(707)** | 1,148 |
| Increase in interest payable | **8** | 2 |
| Decrease in other liabilities | **(20)** | (682) |
| Net cash provided (used) by discontinued operations | **65** | (30) |
| Net cash provided by operating activities | **4,348** | 4,920 |
| **Investing activities:** | | |
| Securities available for sale: | | |
| Purchases | **(6,035)** | (5,767) |
| Proceeds from paydowns and maturities | **3,963** | 3,386 |
| Proceeds from sales | **2,313** | 3,559 |
| Securities held to maturity: | | |
| Purchases | **(2,233)** | (2,140) |
| Proceeds from paydowns and maturities | **1,067** | 590 |
| Loans: | | |
| Net increase in loans held for investment | **(3,783)** | (4,047) |
| Principal recoveries of loans previously charged off | **783** | 802 |
| Purchases of premises and equipment | **(229)** | (250) |
| Net cash used by other investing activities | **(317)** | 0 |
| Net cash used by investing activities | **(4,471)** | (3,867) |
| **Financing activities:** | | |
| Deposits and borrowings: | | |
| (Decrease) increase in restricted cash for securitization investors | **(19)** | 513 |
| Net increase in deposits | **3,228** | 1,363 |
| Issuance of securitized debt obligations | **2,319** | 2,446 |
| Maturities and paydowns of securitized debt obligations | **(175)** | (2,791) |
| Issuance of senior and subordinated notes and long-term FHLB advances | **13,042** | 4,731 |
| Maturities and paydowns of senior and subordinated notes and long-term FHLB advances | **(2,641)** | (1,374) |
| Net decrease in other short-term borrowings | **(15,192)** | (4,755) |
| Common stock: | | |
| Net proceeds from issuances | **53** | 51 |
| Dividends paid | **(385)** | (344) |
| Preferred stock: | | |
| Net proceeds from issuances | **$ 988** | $ 484 |
| Dividends paid | **(61)** | (26) |
| Purchases of treasury stock | **(1,188)** | (980) |
| Proceeds from share-based payment activities | **68** | 70 |
| Net cash provided (used) by financing activities | **37** | (612) |
| Increase (decrease) in cash and cash equivalents | **(86)** | 441 |
| Cash and cash equivalents at beginning of the period | **7,242** | 6,291 |
| Cash and cash equivalents at end of the period | **$ 7,156** | $ 6,732 |
| **Supplemental cash flow information:** | | |
| Non-cash items: | | |
| Net transfers from loans held for investment to loans held for sale | **$ 229** | $ 22 |
| Interest paid | **853** | 798 |
| Income tax paid | **715** | 884 |

See Notes to Consolidated Financial Statements.

## NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### The Company

Capital One Financial Corporation, a Delaware Corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of June 30, 2015, our principal subsidiaries included:

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

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

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

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

Our principal operations are currently organized for management reporting purposes into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. We provide details on our business segments, the integration of recent acquisitions into our business segments, and the allocation methodologies and accounting policies used to derive our business segment results in "Note 13—Business Segments."

### Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). 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 consolidated financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Certain prior period amounts have been reclassified to conform to the current period presentation.

### Principles of Consolidation

The consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE"). All significant intercompany account balances and transactions have been eliminated.

### Change in Accounting Principle

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

We retrospectively adopted this change in accounting principle and our consolidated balance sheet has been recast for all prior periods presented. As a result, our interest receivable, other assets and total assets as of December 31, 2014 were reduced by $356 million, $331 million and $687 million, respectively. Interest payable, other liabilities and total liabilities decreased as of December 31, 2014 by $63 million, $624 million and $687 million, respectively. There was no impact to operating activities in the consolidated statement of cash flows or any line item within the consolidated statements of income. See "Note 9—Derivative Instruments and Hedging Activities" for additional detail on the accounting for derivative instruments.

### New Accounting Standards Adopted

#### *Accounting for Repurchase Transactions*

In June 2014, the Financial Accounting Standards Board ("FASB") issued guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings rather than sales. New disclosures are also required for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor retains substantially all of the exposure to the economic return on the transferred financial assets. Our adoption of the accounting guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice. As required by the new guidance, the new disclosures are effective and have been provided beginning in the second quarter of 2015.

#### *Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period*

In June 2014, the FASB issued guidance clarifying that a performance target contained within a share-based payment award that affects vesting and can be achieved after the requisite service period has been completed is to be accounted for as a performance condition. Accordingly, the grantor of such awards should recognize compensation cost in the period in which it becomes probable that the performance target will be achieved. The amount of the compensation cost recognized should represent the cost attributable to the requisite service period fulfilled. The guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice.

#### *Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity*

In April 2014, the FASB issued guidance raising the threshold for a disposal to qualify as a discontinued operation. Under the new guidance, a component of an entity or group of components that has been disposed by sale, disposed of other than by sale or is classified as held for sale and that represents a strategic shift that has, or will have, a major effect on an entity's operations and financial results should be reported as discontinued operations. The guidance should be applied prospectively for disposals or classifications as held for sale of components of an entity that occur within annual and interim periods beginning after December 15, 2014, with early adoption permitted in certain circumstances. Our adoption of this guidance in the first quarter of 2015 did not have any effect on our consolidated financial statements due to the prospective transition provisions.

#### *Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure*

In January 2014, the FASB issued guidance clarifying when an entity should reclassify a consumer mortgage loan collateralized by residential real estate to foreclosed property. Reclassification should occur when the creditor obtains legal title to the residential real estate property or when the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. An entity should not wait until a redemption period, if any, has expired to reclassify a consumer mortgage loan to foreclosed property. The guidance was effective for annual and interim periods beginning after December 15, 2014. Our adoption of this guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is materially consistent with our current practice.

### Recently Issued but Not Yet Adopted Accounting Standards

#### *Simplifying the Presentation of Debt Issuance Costs*

In April 2015, the FASB issued guidance simplifying the presentation of debt issuance costs. Under the new guidance, the debt issuance costs related to a recognized debt liability will be presented on the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance should be applied retrospectively and is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. We are currently evaluating the potential impact of the new guidance on the consolidated financial statements.

## 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, which we acquired in December 2006 as part of the North Fork Bancorporation, Inc. ("North Fork") acquisition. The results of the wholesale banking unit have been accounted for as a discontinued operation and are therefore not included in our results from continuing operations for the three and six months ended June 30, 2015 and 2014. We have no significant continuing involvement in these operations.

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

**Table 2.1: Results of Discontinued Operations**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Non-interest income (expense), net | **$ 18** | $ (15) | **$ 48** | $ 32 |
| Income (loss) from discontinued operations before income taxes | **18** | (15) | **48** | 32 |
| Income tax provision (benefit) | **7** | (5) | **18** | 12 |
| Income (loss) from discontinued operations, net of tax | **$ 11** | $ (10) | **$ 30** | $ 20 |

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets which primarily consisted of the deferred tax asset related to the reserve for representations and warranties; and liabilities which primarily consisted of reserves for representations and warranties on loans previously sold to third parties. See "Note 14—Commitments, Contingencies, Guarantees and Others" for information related to reserves we have established for our mortgage representation and warranty exposure.

## NOTE 3—INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency (“Agency”) and non-agency residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other investments. The carrying value of our investments in U.S. Treasury securities, Agency securities and other securities guaranteed by the U.S. government or U.S. government agencies represented 89% and 86% of our total investment securities as of June 30, 2015 and December 31, 2014, respectively.

Our investment portfolio includes securities available for sale and securities held to maturity. We classify securities as available for sale or held to maturity based on our investment strategy and management’s assessment of our intent and ability to hold the securities until maturity.

The table below presents the overview of our investment portfolio at June 30, 2015 and December 31, 2014.

**Table 3.1: Overview of Investment Portfolio**

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 |
|---|---|---|
| Securities available for sale, at fair value | **$ 39,136** | $ 39,508 |
| Securities held to maturity, at carrying value | **23,668** | 22,500 |
| Total investments | **$ 62,804** | $ 62,008 |

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale at June 30, 2015 and December 31, 2014.

**Table 3.2: Investment Securities Available for Sale**

| | June 30, 2015 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses[1] | Fair Value |
| **Investment securities available for sale:** | | | | |
| U.S. Treasury securities | **$ 4,411** | **$ 27** | **$ 0** | **$ 4,438** |
| Corporate debt securities guaranteed by U.S. government agencies | **425** | **2** | **(6)** | **421** |
| RMBS: | | | | |
| Agency[2] | **23,529** | **252** | **(129)** | **23,652** |
| Non-agency | **2,857** | **448** | **(11)** | **3,294** |
| Total RMBS | **26,386** | **700** | **(140)** | **26,946** |
| CMBS: | | | | |
| Agency[2] | **3,501** | **28** | **(45)** | **3,484** |
| Non-agency | **1,765** | **28** | **(14)** | **1,779** |
| Total CMBS | **5,266** | **56** | **(59)** | **5,263** |
| Other ABS[3] | **1,728** | **3** | **(4)** | **1,727** |
| Other securities[4] | **340** | **2** | **(1)** | **341** |
| Total investment securities available for sale | **$ 38,556** | **$ 790** | **$ (210)** | **$ 39,136** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Gross Unrealized Gains | Gross Unrealized Losses[1] | Fair Value |
| **Investment securities available for sale:** | | | | |
| U.S. Treasury securities | $ 4,114 | $ 5 | $ (1) | $ 4,118 |
| Corporate debt securities guaranteed by U.S. government agencies | 819 | 1 | (20) | 800 |
| RMBS: | | | | |
| Agency[2] | 21,804 | 296 | (105) | 21,995 |
| Non-agency | 2,938 | 461 | (13) | 3,386 |
| Total RMBS | 24,742 | 757 | (118) | 25,381 |
| CMBS: | | | | |
| Agency[2] | 3,751 | 32 | (60) | 3,723 |
| Non-agency | 1,780 | 31 | (15) | 1,796 |
| Total CMBS | 5,531 | 63 | (75) | 5,519 |
| Other ABS[3] | 2,618 | 54 | (10) | 2,662 |
| Other securities[4] | 1,035 | 6 | (13) | 1,028 |
| Total investment securities available for sale | $ 38,859 | $ 886 | $ (237) | $ 39,508 |

(1) Includes non-credit related other-than-temporary impairment ("OTTI") that remains in accumulated other comprehensive income ("AOCI") of $10 million and $8 million as of June 30, 2015 and December 31, 2014, respectively. Substantially all of this amount is related to non-agency RMBS.

(2) Includes Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac") and Government National Mortgage Association ("Ginnie Mae").

(3) ABS collateralized by credit card loans constituted approximately 63% and 56% of the other ABS portfolio as of June 30, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 16% of the other ABS portfolio as of June 30, 2015 and December 31, 2014, respectively.

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

The table below presents the carrying value, gross unrealized gains and losses, and fair value of securities held to maturity at June 30, 2015 and December 31, 2014.

**Table 3.3: Investment Securities Held to Maturity**

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Unrealized Losses Recorded in AOCI[1] | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| U.S. Treasury securities | **$ 198** | **$ 0** | **$ 198** | **$ 1** | **$ 0** | **$ 199** |
| Agency RMBS | **21,732** | **(1,118)** | **20,614** | **804** | **(47)** | **21,371** |
| Agency CMBS | **2,969** | **(113)** | **2,856** | **92** | **(7)** | **2,941** |
| Total investment securities held to maturity | **$ 24,899** | **$ (1,231)** | **$ 23,668** | **$ 897** | **$ (54)** | **$ 24,511** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Amortized Cost | Unrealized Losses Recorded in AOCI[1] | Carrying Value | Gross Unrealized Gains | Gross Unrealized Losses | Fair Value |
| Agency RMBS | $ 21,347 | $ (1,184) | $ 20,163 | $ 1,047 | $ 0 | $ 21,210 |
| Agency CMBS | 2,457 | (120) | 2,337 | 93 | (6) | 2,424 |
| Total investment securities held to maturity | $ 23,804 | $ (1,304) | $ 22,500 | $ 1,140 | $ (6) | $ 23,634 |

(1) Represents the unrealized holding gain or loss at the date of transfer from available for sale to held to maturity, net of any subsequent accretion. Any bonds purchased into the securities held for maturity portfolio rather than transferred, will not have unrealized losses recognized in AOCI.

### Investment Securities in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our securities available for sale in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of June 30, 2015 and December 31, 2014.

**Table 3.4: Securities in an Unrealized Loss Position**

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| *(Dollars in millions)* | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Investment securities available for sale:** | | | | | | |
| Corporate debt securities guaranteed by U.S. government agencies | **$ 28** | **$ 0** | **$ 301** | **$ (6)** | **$ 329** | **$ (6)** |
| RMBS: | | | | | | |
| Agency | **7,942** | **(59)** | **3,479** | **(70)** | **11,421** | **(129)** |
| Non-agency | **355** | **(6)** | **99** | **(5)** | **454** | **(11)** |
| Total RMBS | **8,297** | **(65)** | **3,578** | **(75)** | **11,875** | **(140)** |
| CMBS: | | | | | | |
| Agency | **506** | **(3)** | **1,458** | **(42)** | **1,964** | **(45)** |
| Non-agency | **560** | **(6)** | **307** | **(8)** | **867** | **(14)** |
| Total CMBS | **1,066** | **(9)** | **1,765** | **(50)** | **2,831** | **(59)** |
| Other ABS | **432** | **0** | **428** | **(4)** | **860** | **(4)** |
| Other securities | **26** | **0** | **20** | **(1)** | **46** | **(1)** |
| Total investment securities available for sale in a gross unrealized loss position | **$ 9,849** | **$ (74)** | **$ 6,092** | **$ (136)** | **$ 15,941** | **$ (210)** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Less than 12 Months | | 12 Months or Longer | | Total | |
| *(Dollars in millions)* | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses | Fair Value | Gross Unrealized Losses |
| **Investment securities available for sale:** | | | | | | |
| U.S. Treasury securities | $ 1,499 | $ (1) | $ 0 | $ 0 | $ 1,499 | $ (1) |
| Corporate debt securities guaranteed by U.S. government agencies | 113 | (2) | 557 | (18) | 670 | (20) |
| RMBS: | | | | | | |
| Agency | 3,917 | (15) | 4,413 | (90) | 8,330 | (105) |
| Non-agency | 412 | (9) | 90 | (4) | 502 | (13) |
| Total RMBS | 4,329 | (24) | 4,503 | (94) | 8,832 | (118) |
| CMBS: | | | | | | |
| Agency | 294 | (2) | 1,993 | (58) | 2,287 | (60) |
| Non-agency | 258 | (1) | 681 | (14) | 939 | (15) |
| Total CMBS | 552 | (3) | 2,674 | (72) | 3,226 | (75) |
| Other ABS | 783 | (1) | 586 | (9) | 1,369 | (10) |
| Other securities | 106 | 0 | 551 | (13) | 657 | (13) |
| Total investment securities available for sale in a gross unrealized loss position | $ 7,382 | $ (31) | $ 8,871 | $ (206) | $ 16,253 | $ (237) |

As of June 30, 2015, the amortized cost of approximately 470 securities available for sale exceeded their fair value by $210 million , of which $136 million related to investment securities that had been in a loss position for 12 months or longer. As of June 30, 2015, our investments in non-agency RMBS and CMBS, other ABS, and other securities accounted for $30 million, or 14%, of total gross unrealized losses on securities available for sale. As of June 30, 2015, the carrying value of approximately 60 securities classified as held to maturity exceeded their fair value by $54 million.

Gross unrealized losses on our investment securities have remained relatively consistent to those at December 31, 2014. The unrealized losses related to investment securities for which we have not recognized credit impairment were primarily attributable to changes in market interest rates. As discussed in more detail below, we conduct periodic reviews of all investment securities with unrealized losses to assess whether impairment is other-than-temporary. We believe the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of June 30, 2015.

**Maturities and Yields of Investment Securities**

The following tables summarize the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of June 30, 2015.

**Table 3.5: Contractual Maturities of Securities Available for Sale**

| | June 30, 2015 | |
|---|---|---|
| *(Dollars in millions)* | **Amortized Cost** | **Fair Value** |
| Due in 1 year or less | **$ 841** | **$ 841** |
| Due after 1 year through 5 years | **5,724** | **5,758** |
| Due after 5 years through 10 years | **2,031** | **2,058** |
| Due after 10 years[1] | **29,960** | **30,479** |
| Total | **$ 38,556** | **$ 39,136** |

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

**Table 3.6: Contractual Maturities of Securities Held to Maturity**

| | June 30, 2015 | |
|---|---|---|
| *(Dollars in millions)* | **Carrying Value** | **Fair Value** |
| Due after 1 year through 5 years | **$ 198** | **$ 199** |
| Due after 5 years through 10 years | **1,148** | **1,221** |
| Due after 10 years | **22,322** | **23,091** |
| Total | **$ 23,668** | **$ 24,511** |

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 weighted-average yields of our investment securities as of June 30, 2015.

**Table 3.7: Expected Maturities and Weighted-Average Yields of Securities**

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Due in 1 Year or Less | Due > 1 Year through 5 Years | Due > 5 Years through 10 Years | Due > 10 Years | Total |
| **Fair value of securities available for sale:** | | | | | |
| U.S. Treasury securities | $ 551 | $ 3,887 | $ 0 | $ 0 | $ 4,438 |
| Corporate debt securities guaranteed by U.S. government agencies | 0 | 295 | 126 | 0 | 421 |
| RMBS: | | | | | |
| Agency | 216 | 11,642 | 11,794 | 0 | 23,652 |
| Non-agency | 9 | 950 | 1,664 | 671 | 3,294 |
| Total RMBS | 225 | 12,592 | 13,458 | 671 | 26,946 |
| CMBS: | | | | | |
| Agency | 88 | 1,931 | 1,446 | 19 | 3,484 |
| Non-agency | 158 | 478 | 1,143 | 0 | 1,779 |
| Total CMBS | 246 | 2,409 | 2,589 | 19 | 5,263 |
| Other ABS | 358 | 1,177 | 192 | 0 | 1,727 |
| Other securities | 64 | 62 | 126 | 89 | 341 |
| Total securities available for sale | $ 1,444 | $ 20,422 | $ 16,491 | $ 779 | $ 39,136 |
| **Amortized cost of securities available for sale** | $ 1,448 | $ 20,184 | $ 16,226 | $ 698 | $ 38,556 |
| **Weighted-average yield for securities available for sale**[1] | 1.12% | 2.18% | 2.94% | 5.60% | 2.52% |
| **Carrying value of securities held to maturity:** | | | | | |
| U.S. Treasury securities | $ 0 | $ 198 | $ 0 | $ 0 | $ 198 |
| Agency RMBS | 13 | 638 | 16,658 | 3,305 | 20,614 |
| Agency CMBS | 0 | 60 | 2,457 | 339 | 2,856 |
| Total securities held for maturity | $ 13 | $ 896 | $ 19,115 | $ 3,644 | $ 23,668 |
| **Fair value of securities held to maturity** | $ 14 | $ 917 | $ 19,846 | $ 3,734 | $ 24,511 |
| **Weighted-average yield for securities held to maturity**[1] | 5.67% | 2.95% | 2.53% | 3.44% | 2.69% |

(1) The weighted-average yield represents the effective yield for the investment securities and is calculated based on the amortized cost of each security.

### Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least on a quarterly basis, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is based on a discounted cash flow analysis which requires careful use of judgments and assumptions. A number of qualitative and quantitative criteria may be considered in our assessment as applicable, including the size and the nature of the portfolio; historical and projected performance such as prepayment, default and loss severity for the RMBS portfolio; recent credit events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings of the issuer and any failure or delay 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 and projected market and macro-economic conditions.

If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. As of June 30, 2015, for any securities with unrealized losses recorded in AOCI, we do not intend to sell nor believe that we will be required to sell these securities prior to recovery of their amortized cost.

For those securities that we do not intend to sell nor expect to be required to sell, an analysis is performed to determine if any of the impairment is due to credit-related factors or whether it is due to other factors, such as interest rates. Credit-related impairment is recognized in earnings, with the remaining unrealized non-credit-related impairment 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 cash flows, discounted based on the effective yield.

The table below presents a rollforward of the credit-related OTTI recognized in earnings for the three and six months ended June 30, 2015 and 2014 on investment securities for which we had no intent to sell.

**Table 3.8: Credit Impairment Rollforward**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Credit loss component, beginning of period | **$ 190** | $ 165 | **$ 175** | $ 160 |
| Additions: | | | | |
| Initial credit impairment | **0** | 0 | **5** | 1 |
| Subsequent credit impairment | **2** | 1 | **12** | 5 |
| Total additions | **2** | 1 | **17** | 6 |
| Reductions due to payoffs, disposals, transfers and other | **0** | (1) | **0** | (1) |
| Credit loss component, end of period | **$ 192** | $ 165 | **$ 192** | $ 165 |

### Realized Gains and Losses on Securities and OTTI Recognized in Earnings

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale, and the OTTI losses recognized in earnings for the three and six months ended June 30, 2015 and 2014. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are held to maturity.

**Table 3.9: Realized Gains and Losses and OTTI Recognized in Earnings**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| **Realized gains (losses):** | | | | |
| Gross realized gains | **$ 8** | $ 2 | **$ 17** | $ 34 |
| Gross realized losses | **(9)** | (3) | **(16)** | (22) |
| Net realized (losses) gains | **(1)** | (1) | **1** | 12 |
| **OTTI recognized in earnings:** | | | | |
| Credit-related OTTI | **(2)** | (1) | **(17)** | (6) |
| Intent-to-sell OTTI | **(5)** | 0 | **(5)** | 0 |
| Total OTTI recognized in earnings | **(7)** | (1) | **(22)** | (6) |
| **Net securities (losses) gains** | **$ (8)** | $ (2) | **$ (21)** | $ 6 |
| | | | | |
| **Total proceeds from sales** | **$ 971** | $ 583 | **$ 2,313** | $ 3,559 |

### Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Banks and the Federal Reserve. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $2.1 billion and $3.5 billion as of June 30, 2015 and December 31, 2014, respectively. We pledged securities held to maturity with a carrying value of $9.3 billion and $9.0 billion as of June 30, 2015 and December 31, 2014, respectively. Of the total securities pledged as collateral, we have encumbered $11.0 billion and $10.6 billion as of June 30, 2015 and December 31, 2014, respectively, primarily related to Public Fund deposits and our derivative transactions. We accepted pledges of securities with a fair value of $16 million and $91 million as of June 30, 2015 and December 31, 2014, respectively, primarily related to our derivative transactions.

### Acquired Securities

The table below presents the outstanding balance and carrying value of the acquired credit-impaired debt securities as of June 30, 2015 and December 31, 2014.

**Table 3.10: Outstanding Balance and Carrying Value of Acquired Securities**

| *(Dollars in millions)* | **June 30, 2015** | **December 31, 2014** |
|---|---|---|
| Outstanding balance | **$ 3,526** | $ 3,768 |
| Carrying value | **2,677** | 2,839 |

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

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

**Table 3.11: Changes in the Accretable Yield of Acquired Credit-Impaired Debt Securities**

| *(Dollars in millions)* | **Three Months Ended June 30, 2015** | **Six Months Ended June 30, 2015** |
|---|---|---|
| Accretable yield, beginning of period | $ 1,171 | $ 1,250 |
| Accretion recognized in earnings | **(62)** | **(123)** |
| Reduction due to payoffs, disposals, transfers and other | **0** | **(1)** |
| Net reclassifications from nonaccretable difference | **83** | **66** |
| Accretable yield, end of period | **$ 1,192** | **$ 1,192** |

## NOTE 4—LOANS

### Loan Portfolio Composition

Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts, and loans held for sale, and is divided into three portfolio segments: credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card 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.

Our portfolio of loans held for investment also includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition and are referred to as Acquired Loans. The substantial majority of the loans purchased in the 2012 U.S. card acquisition had existing revolving privileges; therefore, they were excluded from Acquired Loans and accounted for based on contractual cash flows at acquisition. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for additional information on accounting guidance for these loans.

### 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 portfolio. The level of nonperforming loans 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 loan rates, as well as net charge-off rates and our internal risk ratings of larger balance commercial loans. The table below presents the composition and an aging analysis of our loans held for investment portfolio, which includes restricted loans for securitization investors, as of June 30, 2015 and December 31, 2014. The delinquency aging includes all past due loans, both performing and nonperforming.

**Table 4.1: Loan Portfolio Composition and Aging Analysis**

| | June 30, 2015 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Current | 30-59 Days | 60-89 Days | ≥ 90 Days | Total Delinquent Loans | Acquired Loans | Total Loans |
| **Credit Card:** | | | | | | | |
| Domestic credit card[1] | $ 76,741 | $ 777 | $ 489 | $ 977 | $ 2,243 | $ 0 | $ 78,984 |
| International credit card | 7,949 | 108 | 60 | 102 | 270 | 0 | 8,219 |
| Total credit card | 84,690 | 885 | 549 | 1,079 | 2,513 | 0 | 87,203 |
| **Consumer Banking:** | | | | | | | |
| Auto | 37,598 | 1,573 | 660 | 160 | 2,393 | 0 | 39,991 |
| Home loan | 6,553 | 45 | 27 | 191 | 263 | 20,779 | 27,595 |
| Retail banking | 3,507 | 16 | 10 | 20 | 46 | 37 | 3,590 |
| Total consumer banking | 47,658 | 1,634 | 697 | 371 | 2,702 | 20,816 | 71,176 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 22,809 | 19 | 0 | 21 | 40 | 37 | 22,886 |
| Commercial and industrial | 27,267 | 101 | 12 | 163 | 276 | 117 | 27,660 |
| Total commercial lending | 50,076 | 120 | 12 | 184 | 316 | 154 | 50,546 |
| Small-ticket commercial real estate | 680 | 2 | 2 | 1 | 5 | 0 | 685 |
| Total commercial banking | 50,756 | 122 | 14 | 185 | 321 | 154 | 51,231 |
| Other loans | 82 | 4 | 2 | 7 | 13 | 0 | 95 |
| Total loans[2] | $ 183,186 | $ 2,645 | $ 1,262 | $ 1,642 | $ 5,549 | $ 20,970 | $ 209,705 |
| % of Total loans | 87.35% | 1.26% | 0.60% | 0.79% | 2.65% | 10.00% | 100.00% |

| | December 31, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Current | 30-59 Days | 60-89 Days | ≥ 90 Days | Total Delinquent Loans | Acquired Loans | Total Loans |
| **Credit Card:** | | | | | | | |
| Domestic credit card[1] | $ 75,143 | $ 790 | $ 567 | $ 1,181 | $ 2,538 | $ 23 | $ 77,704 |
| International credit card | 7,878 | 114 | 69 | 111 | 294 | 0 | 8,172 |
| Total credit card | 83,021 | 904 | 636 | 1,292 | 2,832 | 23 | 85,876 |
| **Consumer Banking:** | | | | | | | |
| Auto | 35,142 | 1,751 | 734 | 197 | 2,682 | 0 | 37,824 |
| Home loan | 6,492 | 57 | 27 | 218 | 302 | 23,241 | 30,035 |
| Retail banking | 3,496 | 17 | 7 | 16 | 40 | 44 | 3,580 |
| Total consumer banking | 45,130 | 1,825 | 768 | 431 | 3,024 | 23,285 | 71,439 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 22,974 | 74 | 7 | 36 | 117 | 46 | 23,137 |
| Commercial and industrial | 26,753 | 29 | 10 | 34 | 73 | 146 | 26,972 |
| Total commercial lending | 49,727 | 103 | 17 | 70 | 190 | 192 | 50,109 |
| Small-ticket commercial real estate | 771 | 6 | 1 | 3 | 10 | 0 | 781 |
| Total commercial banking | 50,498 | 109 | 18 | 73 | 200 | 192 | 50,890 |
| Other loans | 97 | 3 | 2 | 9 | 14 | 0 | 111 |
| Total loans[2] | $ 178,746 | $ 2,841 | $ 1,424 | $ 1,805 | $ 6,070 | $ 23,500 | $ 208,316 |
| % of Total loans | 85.81% | 1.36% | 0.68% | 0.87% | 2.91% | 11.28% | 100.00% |

(1) Includes installment loans of $107 million and $144 million as of June 30, 2015 and December 31, 2014, respectively.

(2) Loans as presented are net of unearned income, unamortized premiums and discounts, and unamortized deferred fees and costs totaling $935 million and $1.1 billion as of June 30, 2015 and December 31, 2014, respectively.

We had total loans held for sale of $1.1 billion and $626 million as of June 30, 2015 and December 31, 2014, respectively.

Table 4.2 presents loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming as of June 30, 2015 and December 31, 2014.

**Table 4.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans[1]**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | ≥ 90 Days and Accruing | Nonperforming Loans | ≥ 90 Days and Accruing | Nonperforming Loans |
| **Credit Card:** | | | | |
| Domestic credit card | **$ 977** | **$ 0** | $ 1,181 | $ 0 |
| International credit card | **64** | **68** | 73 | 70 |
| Total credit card | **1,041** | **68** | 1,254 | 70 |
| **Consumer Banking:** | | | | |
| Auto | **0** | **160** | 0 | 197 |
| Home loan | **0** | **313** | 0 | 330 |
| Retail banking | **1** | **28** | 1 | 22 |
| Total consumer banking | **1** | **501** | 1 | 549 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **0** | **27** | 7 | 62 |
| Commercial and industrial | **6** | **433** | 1 | 106 |
| Total commercial lending | **6** | **460** | 8 | 168 |

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | ≥ 90 Days and Accruing | Nonperforming Loans | ≥ 90 Days and Accruing | Nonperforming Loans |
| Small-ticket commercial real estate | **0** | **3** | 0 | 7 |
| Total commercial banking | **6** | **463** | 8 | 175 |
| Other loans | **0** | **10** | 0 | 15 |
| Total | **$ 1,048** | **$ 1,042** | $ 1,263 | $ 809 |
| % of Total loans | **0.50%** | **0.50%** | 0.61% | 0.39% |

(1) Nonperforming loans generally include loans that have been placed on nonaccrual status. Acquired Loans are excluded from loans reported as 90 days and accruing interest as well as nonperforming loans.

### Credit Card

Our credit card loan portfolio is generally highly diversified across millions of accounts and numerous geographies without significant individual exposure. We therefore generally manage credit risk on a portfolio basis. The risk in our credit card portfolio correlates to 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 June 30, 2015 and December 31, 2014. We also present net charge-offs for the three and six months ended June 30, 2015 and 2014.

**Table 4.3: Credit Card: Risk Profile by Geographic Region and Delinquency Status**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total[1] | Amount | % of Total[1] |
| **Domestic credit card:** | | | | |
| California | **$ 8,891** | **10.2%** | $ 8,574 | 10.0% |
| New York | **5,785** | **6.6** | 5,610 | 6.5 |
| Texas | **5,581** | **6.4** | 5,382 | 6.3 |
| Florida | **4,968** | **5.7** | 4,794 | 5.6 |
| Illinois | **3,733** | **4.3** | 3,747 | 4.4 |
| Pennsylvania | **3,430** | **3.9** | 3,581 | 4.2 |
| Ohio | **3,050** | **3.5** | 3,075 | 3.6 |
| New Jersey | **2,903** | **3.3** | 2,868 | 3.3 |
| Michigan | **2,665** | **3.1** | 2,681 | 3.1 |
| Other | **37,978** | **43.6** | 37,392 | 43.5 |
| Total domestic credit card | **78,984** | **90.6** | 77,704 | 90.5 |
| **International credit card:** | | | | |
| Canada | **4,867** | **5.6** | 4,747 | 5.5 |
| United Kingdom | **3,352** | **3.8** | 3,425 | 4.0 |
| Total international credit card | **8,219** | **9.4** | 8,172 | 9.5 |
| Total credit card | **$ 87,203** | **100.0%** | $ 85,876 | 100.0% |
| **Selected credit metrics:[2]** | | | | |
| 30+ day delinquencies | **$ 2,513** | **2.88%** | $ 2,832 | 3.30% |
| 90+ day delinquencies | **1,079** | **1.24** | 1,292 | 1.50 |

(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) 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.

**Table 4.4: Credit Card: Net Charge-offs**

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| *(Dollars in millions)* | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] |
| **Net charge-offs:** | | | | | | | | |
| Domestic credit card | **$ 650** | **3.42%** | $ 610 | 3.52% | **$ 1,314** | **3.49%** | $ 1,310 | 3.77% |
| International credit card | **53** | **2.65** | 75 | 3.93 | **108** | **2.73** | 155 | 4.05 |
| Total credit card | **$ 703** | **3.35** | $ 685 | 3.56 | **$ 1,422** | **3.42** | $ 1,465 | 3.79 |

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

## 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 correlates to broad economic trends, such as unemployment rates, GDP, and home values, as well as customer liquidity, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio.

The table below displays the geographic profile of our consumer banking loan portfolio, including Acquired Loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio as of June 30, 2015 and December 31, 2014, and net charge-offs for the three and six months ended June 30, 2015 and 2014.

**Table 4.5: Consumer Banking: Risk Profile by Geographic Region, Delinquency Status and Performing Status**

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total[1] | Amount | % of Total[1] |
| **Auto:** | | | | |
| Texas | **$ 5,383** | **7.6%** | $ 5,248 | 7.4% |
| California | **4,367** | **6.1** | 4,081 | 5.7 |
| Florida | **3,062** | **4.3** | 2,737 | 3.8 |
| Georgia | **2,169** | **3.1** | 2,066 | 2.9 |
| Louisiana | **1,872** | **2.6** | 1,773 | 2.5 |
| Illinois | **1,784** | **2.5** | 1,676 | 2.4 |
| Ohio | **1,654** | **2.3** | 1,566 | 2.2 |
| Other | **19,700** | **27.7** | 18,677 | 26.1 |
| Total auto | **39,991** | **56.2** | 37,824 | 53.0 |
| **Home loan:** | | | | |
| California | **6,412** | **9.0** | 6,943 | 9.7 |
| New York | **2,313** | **3.2** | 2,452 | 3.4 |
| Illinois | **1,697** | **2.4** | 1,873 | 2.6 |
| Maryland | **1,624** | **2.3** | 1,720 | 2.4 |
| Virginia | **1,452** | **2.0** | 1,538 | 2.2 |
| New Jersey | **1,405** | **2.0** | 1,529 | 2.1 |
| Florida | **1,253** | **1.8** | 1,375 | 1.9 |

| | June 30, 2015 | | December 31, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Amount | % of Total[1] | Amount | % of Total[1] |
| Other | **11,439** | **16.1** | 12,605 | 17.7 |
| Total home loan | **27,595** | **38.8** | 30,035 | 42.0 |
| **Retail banking:** | | | | |
| Louisiana | **1,128** | **1.6** | 1,120 | 1.5 |
| New York | **891** | **1.2** | 881 | 1.2 |
| Texas | **752** | **1.0** | 756 | 1.1 |
| New Jersey | **255** | **0.4** | 265 | 0.4 |
| Maryland | **170** | **0.2** | 167 | 0.2 |
| Virginia | **142** | **0.2** | 132 | 0.2 |
| California | **49** | **0.1** | 52 | 0.1 |
| Other | **203** | **0.3** | 207 | 0.3 |
| Total retail banking | **3,590** | **5.0** | 3,580 | 5.0 |
| Total consumer banking | **$ 71,176** | **100.0%** | $ 71,439 | 100.0% |

| | June 30, 2015 | | | | | | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 30+ day Delinquencies | | 90+ day Delinquencies | | Nonperforming Loans | | 30+ day Delinquencies | | 90+ day Delinquencies | | Nonperforming Loans | |
| *(Dollars in millions)* | Amount | Rate | Amount | Rate | Amount | Rate | Amount | Rate | Amount | Rate | Amount | Rate |
| Auto | **$ 2,393** | **5.98%** | **$ 160** | **0.40%** | **$ 160** | **0.40%** | $ 2,682 | 7.09% | $ 197 | 0.52% | $ 197 | 0.52% |
| Home Loan[2] | **263** | **0.95** | **191** | **0.69** | **313** | **1.13** | 302 | 1.01 | 218 | 0.73 | 330 | 1.10 |
| Retail Banking | **46** | **1.28** | **20** | **0.55** | **28** | **0.79** | 40 | 1.11 | 16 | 0.44 | 22 | 0.61 |
| Total Consumer Banking[2] | **$ 2,702** | **3.80** | **$ 371** | **0.52** | **$ 501** | **0.70** | $ 3,024 | 4.23 | $ 431 | 0.60 | $ 549 | 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] Excluding the impact of Acquired Loans, the 30+ day delinquency rates, 90+ day delinquency rates, and the nonperforming loans rates for our home loan portfolio were 3.85%, 2.81% and 4.59% as of June 30, 2015; and 4.45%, 3.21% and 4.86% as of December 31, 2014; and for the total consumer banking loan portfolio were 5.36%, 0.74% and 1.00% as of June 30, 2015; and 6.28%, 0.89% and 1.14% as of December 31, 2014.

**Table 4.6: Consumer Banking: Net Charge-offs**

| | Three Months Ended June 30, | | | | Six Months Ended June 30, | | | |
|---|---|---|---|---|---|---|---|---|
| | 2015 | | 2014 | | 2015 | | 2014 | |
| *(Dollars in millions)* | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] | Amount | Rate[1] |
| **Net charge-offs:** | | | | | | | | |
| Auto | **$ 121** | **1.22%** | $ 111 | 1.31% | **$ 269** | **1.38%** | $ 245 | 1.48% |
| Home loan | **3** | **0.04** | 5 | 0.05 | **5** | **0.03** | 10 | 0.06 |
| Retail banking | **12** | **1.39** | 6 | 0.70 | **21** | **1.18** | 15 | 0.82 |
| Total consumer banking | **$ 136** | **0.76** | $ 122 | 0.69 | **$ 295** | **0.83** | $ 270 | 0.76 |

[1] Calculated for each loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period. Excluding the impact of Acquired Loans, the net charge-off rates for our home loan portfolio and the total consumer banking loan portfolio were 0.16% and 1.09%, respectively, for the three months ended June 30, 2015, compared to 0.25% and1.09%, respectively, for the three months ended June 30, 2014; and 0.13% and 1.19%, respectively, for the six months ended June 30, 2015, compared to 0.27% and 1.23%, respectively, for the six months ended June 30, 2014.

## 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 after the peak in 2006 and subsequent 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.

The following table presents the distribution of our home loan portfolio as of June 30, 2015 and December 31, 2014, based on selected key risk characteristics.

**Table 4.7: Home Loan: Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type**

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| | Loans | | Acquired Loans | | Total Home Loans | |
| *(Dollars in millions)* | Amount | % of Total[1] | Amount | % of Total[1] | Amount | % of Total[1] |
| **Origination year:[2]** | | | | | | |
| < = 2006 | $ 2,554 | 9.3% | $ 5,271 | 19.1% | $ 7,825 | 28.4% |
| 2007 | 294 | 1.1 | 4,475 | 16.2 | 4,769 | 17.3 |
| 2008 | 172 | 0.6 | 3,155 | 11.4 | 3,327 | 12.0 |
| 2009 | 106 | 0.4 | 1,735 | 6.3 | 1,841 | 6.7 |
| 2010 | 107 | 0.4 | 2,590 | 9.4 | 2,697 | 9.8 |
| 2011 | 196 | 0.7 | 2,963 | 10.7 | 3,159 | 11.4 |
| 2012 | 1,443 | 5.2 | 461 | 1.7 | 1,904 | 6.9 |
| 2013 | 604 | 2.2 | 75 | 0.3 | 679 | 2.5 |
| 2014 | 720 | 2.6 | 31 | 0.1 | 751 | 2.7 |
| 2015 | 620 | 2.2 | 23 | 0.1 | 643 | 2.3 |
| Total | $ 6,816 | 24.7% | $ 20,779 | 75.3% | $ 27,595 | 100.0% |
| **Geographic concentration:[3]** | | | | | | |
| California | $ 939 | 3.4% | $ 5,473 | 19.8% | $ 6,412 | 23.2% |
| New York | 1,336 | 4.9 | 977 | 3.5 | 2,313 | 8.4 |
| Illinois | 94 | 0.3 | 1,603 | 5.8 | 1,697 | 6.1 |
| Maryland | 484 | 1.8 | 1,140 | 4.1 | 1,624 | 5.9 |
| Virginia | 410 | 1.5 | 1,042 | 3.8 | 1,452 | 5.3 |
| New Jersey | 334 | 1.2 | 1,071 | 3.9 | 1,405 | 5.1 |
| Florida | 163 | 0.6 | 1,090 | 3.9 | 1,253 | 4.5 |
| Arizona | 87 | 0.3 | 1,109 | 4.0 | 1,196 | 4.3 |
| Louisiana | 1,140 | 4.1 | 33 | 0.2 | 1,173 | 4.3 |
| Washington | 110 | 0.4 | 913 | 3.3 | 1,023 | 3.7 |
| Other | 1,719 | 6.2 | 6,328 | 23.0 | 8,047 | 29.2 |
| Total | $ 6,816 | 24.7% | $ 20,779 | 75.3% | $ 27,595 | 100.0% |
| **Lien type:** | | | | | | |
| 1st lien | $ 5,807 | 21.0% | $ 20,444 | 74.1% | $ 26,251 | 95.1% |
| 2nd lien | 1,009 | 3.7 | 335 | 1.2 | 1,344 | 4.9 |
| Total | $ 6,816 | 24.7% | $ 20,779 | 75.3% | $ 27,595 | 100.0% |
| **Interest rate type:** | | | | | | |
| Fixed rate | $ 2,654 | 9.6% | $ 2,516 | 9.1% | $ 5,170 | 18.7% |
| Adjustable rate | 4,162 | 15.1 | 18,263 | 66.2 | 22,425 | 81.3 |
| Total | $ 6,816 | 24.7% | $ 20,779 | 75.3% | $ 27,595 | 100.0% |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| | Loans | | Acquired Loans | | Total Home Loans | |
| (Dollars in millions) | Amount | % of Total[1] | Amount | % of Total[1] | Amount | % of Total[1] |
| **Origination year:[2]** | | | | | | |
| < = 2006 | $ 2,827 | 9.4% | $ 5,715 | 19.1% | $ 8,542 | 28.5% |
| 2007 | 320 | 1.1 | 4,766 | 15.8 | 5,086 | 16.9 |
| 2008 | 187 | 0.6 | 3,494 | 11.7 | 3,681 | 12.3 |
| 2009 | 107 | 0.4 | 1,999 | 6.6 | 2,106 | 7.0 |
| 2010 | 120 | 0.4 | 3,108 | 10.3 | 3,228 | 10.7 |
| 2011 | 221 | 0.7 | 3,507 | 11.7 | 3,728 | 12.4 |
| 2012 | 1,620 | 5.4 | 533 | 1.8 | 2,153 | 7.2 |
| 2013 | 661 | 2.2 | 85 | 0.3 | 746 | 2.5 |
| 2014 | 731 | 2.4 | 34 | 0.1 | 765 | 2.5 |
| Total | $ 6,794 | 22.6% | $ 23,241 | 77.4% | $ 30,035 | 100.0% |
| **Geographic concentration:[3]** | | | | | | |
| California | $ 924 | 3.1% | $ 6,019 | 20.0% | $ 6,943 | 23.1% |
| New York | 1,379 | 4.6 | 1,073 | 3.6 | 2,452 | 8.2 |
| Illinois | 86 | 0.3 | 1,787 | 5.9 | 1,873 | 6.2 |
| Maryland | 457 | 1.5 | 1,263 | 4.2 | 1,720 | 5.7 |
| Virginia | 385 | 1.3 | 1,153 | 3.8 | 1,538 | 5.1 |
| New Jersey | 341 | 1.1 | 1,188 | 4.0 | 1,529 | 5.1 |
| Florida | 161 | 0.5 | 1,214 | 4.1 | 1,375 | 4.6 |
| Arizona | 89 | 0.3 | 1,215 | 4.1 | 1,304 | 4.4 |
| Louisiana | 1,205 | 4.0 | 38 | 0.1 | 1,243 | 4.1 |
| Washington | 109 | 0.4 | 1,038 | 3.4 | 1,147 | 3.8 |
| Other | 1,658 | 5.5 | 7,253 | 24.2 | 8,911 | 29.7 |
| Total | $ 6,794 | 22.6% | $ 23,241 | 77.4% | $ 30,035 | 100.0% |
| **Lien type:** | | | | | | |
| 1st lien | $ 5,756 | 19.2% | $ 22,883 | 76.2% | $ 28,639 | 95.4% |
| 2nd lien | 1,038 | 3.4 | 358 | 1.2 | 1,396 | 4.6 |
| Total | $ 6,794 | 22.6% | $ 23,241 | 77.4% | $ 30,035 | 100.0% |
| **Interest rate type:** | | | | | | |
| Fixed rate | $ 2,446 | 8.1% | $ 2,840 | 9.5% | $ 5,286 | 17.6% |
| Adjustable rate | 4,348 | 14.5 | 20,401 | 67.9 | 24,749 | 82.4 |
| Total | $ 6,794 | 22.6% | $ 23,241 | 77.4% | $ 30,035 | 100.0% |

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

(2) The Acquired Loans origination balances in the years subsequent to 2012 are related to refinancing of previously acquired home loans.

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

Our recorded investment in home loans for properties that are in process of foreclosure was $543 million as of June 30, 2015. We commence the foreclosure process on home loans when a borrower becomes at least 120 days delinquent in accordance with Consumer Financial Protection Bureau regulations. Foreclosure procedures and time lines vary according to state law. As of June 30, 2015 and December 31, 2014, the carrying value of the foreclosed residential real estate properties which we hold and report as other assets on our consolidated balance sheet totaled $125 million and $131 million, respectively.

## 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 net 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 credit exposure reviews, and evaluating and determining the allowance for loan and lease losses 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, we evaluate the risk rating during the renewal process of any loan or if a loan becomes past due.

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of June 30, 2015 and December 31, 2014.

**Table 4.8: Commercial Banking: Risk Profile by Geographic Region and Internal Risk Rating**

| | June 30, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Commercial and Multifamily Real Estate | % of Total[(1)] | Commercial and Industrial | % of Total[(1)] | Small-ticket Commercial Real Estate | % of Total[(1)] | Total Commercial Banking | % of Total[(1)] |
| **Geographic concentration:[(2)]** | | | | | | | | |
| Loans: | | | | | | | | |
| Northeast | $ 14,514 | 63.4% | $ 6,498 | 23.5% | $ 419 | 61.2% | $ 21,431 | 41.8% |
| Mid-Atlantic | 2,558 | 11.2 | 2,084 | 7.5 | 27 | 3.9 | 4,669 | 9.1 |
| South | 3,436 | 15.0 | 12,028 | 43.5 | 43 | 6.3 | 15,507 | 30.3 |
| Other | 2,378 | 10.4 | 7,050 | 25.5 | 196 | 28.6 | 9,624 | 18.8 |
| Total | $ 22,886 | 100.0% | $ 27,660 | 100.0% | $ 685 | 100.0% | $ 51,231 | 100.0% |
| **Internal risk rating:[(3)]** | | | | | | | | |
| Loans: | | | | | | | | |
| Noncriticized | $ 22,453 | 98.1% | $ 25,869 | 93.5% | $ 679 | 99.1% | $ 49,001 | 95.7% |
| Criticized performing | 406 | 1.8 | 1,358 | 4.9 | 3 | 0.4 | 1,767 | 3.4 |
| Criticized nonperforming | 27 | 0.1 | 433 | 1.6 | 3 | 0.5 | 463 | 0.9 |
| Total | $ 22,886 | 100.0% | $ 27,660 | 100.0% | $ 685 | 100.0% | $ 51,231 | 100.0% |

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| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Commercial and Multifamily Real Estate | % of Total(1) | Commercial and Industrial | % of Total(1) | Small-ticket Commercial Real Estate | % of Total(1) | Total Commercial Banking | % of Total(1) |
| **Geographic concentration:(2)** | | | | | | | | |
| Loans: | | | | | | | | |
| Northeast | $ 15,135 | 65.4% | $ 6,384 | 23.7% | $ 478 | 61.2% | $ 21,997 | 43.2% |
| Mid-Atlantic | 2,491 | 10.8 | 2,121 | 7.9 | 30 | 3.8 | 4,642 | 9.1 |
| South | 3,070 | 13.3 | 12,310 | 45.6 | 48 | 6.2 | 15,428 | 30.3 |
| Other | 2,441 | 10.5 | 6,157 | 22.8 | 225 | 28.8 | 8,823 | 17.4 |
| Total | $ 23,137 | 100.0% | $ 26,972 | 100.0% | $ 781 | 100.0% | $ 50,890 | 100.0% |
| **Internal risk rating:(3)** | | | | | | | | |
| Loans: | | | | | | | | |
| Noncriticized | $ 22,535 | 97.4% | $ 25,982 | 96.3% | $ 767 | 98.2% | $ 49,284 | 96.9% |
| Criticized performing | 540 | 2.3 | 884 | 3.3 | 7 | 0.9 | 1,431 | 2.8 |
| Criticized nonperforming | 62 | 0.3 | 106 | 0.4 | 7 | 0.9 | 175 | 0.3 |
| Total | $ 23,137 | 100.0% | $ 26,972 | 100.0% | $ 781 | 100.0% | $ 50,890 | 100.0% |

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

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

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

### Impaired Loans

The following table presents information about our impaired loans, excluding the impact of Acquired Loans, which is reported separately as of June 30, 2015 and December 31, 2014, and for the three and six months ended June 30, 2015 and 2014:

**Table 4.9: Impaired Loans(1)**

| | June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | With an Allowance | Without an Allowance | Total Recorded Investment | Related Allowance | Net Recorded Investment | Unpaid Principal Balance |
| **Credit Card:** | | | | | | |
| Domestic credit card | **$ 532** | **$ 0** | **$ 532** | **$ 139** | **$ 393** | **$ 517** |
| International credit card | **138** | **0** | **138** | **67** | **71** | **133** |
| Total credit card(2) | **670** | **0** | **670** | **206** | **464** | **650** |
| **Consumer Banking:** | | | | | | |
| Auto(3) | **254** | **207** | **461** | **21** | **440** | **732** |
| Home loan | **215** | **148** | **363** | **15** | **348** | **460** |
| Retail banking | **51** | **6** | **57** | **11** | **46** | **59** |
| Total consumer banking | **520** | **361** | **881** | **47** | **834** | **1,251** |
| **Commercial Banking:** | | | | | | |
| Commercial and multifamily real estate | **95** | **11** | **106** | **19** | **87** | **118** |
| Commercial and industrial | **299** | **265** | **564** | **53** | **511** | **592** |
| Total commercial lending | **394** | **276** | **670** | **72** | **598** | **710** |
| Small-ticket commercial real estate | **4** | **0** | **4** | **0** | **4** | **4** |
| Total commercial banking | **398** | **276** | **674** | **72** | **602** | **714** |
| Total | **$ 1,588** | **$ 637** | **$ 2,225** | **$ 325** | **$ 1,900** | **$ 2,615** |

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| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| **Credit Card:** | | | | |
| Domestic credit card | **$ 535** | **$ 14** | **$ 539** | **$ 28** |
| International credit card | **136** | **3** | **139** | **5** |
| Total credit card[2] | **671** | **17** | **678** | **33** |
| **Consumer Banking:** | | | | |
| Auto[3] | **457** | **20** | **450** | **41** |
| Home loan | **364** | **1** | **365** | **2** |
| Retail banking | **56** | **1** | **54** | **1** |
| Total consumer banking | **877** | **22** | **869** | **44** |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | **113** | **1** | **124** | **2** |
| Commercial and industrial | **388** | **1** | **330** | **2** |
| Total commercial lending | **501** | **2** | **454** | **4** |
| Small-ticket commercial real estate | **8** | **0** | **8** | **0** |
| Total commercial banking | **509** | **2** | **462** | **4** |
| Total | **$ 2,057** | **$ 41** | **$ 2,009** | **$ 81** |

| | December 31, 2014 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | With an Allowance | Without an Allowance | Total Recorded Investment | Related Allowance | Net Recorded Investment | Unpaid Principal Balance |
| **Credit Card:** | | | | | | |
| Domestic credit card | $ 546 | $ 0 | $ 546 | $ 145 | $ 401 | $ 531 |
| International credit card | 146 | 0 | 146 | 74 | 72 | 141 |
| Total credit card[2] | 692 | 0 | 692 | 219 | 473 | 672 |
| **Consumer Banking:** | | | | | | |
| Auto[3] | 230 | 205 | 435 | 19 | 416 | 694 |
| Home loan | 218 | 149 | 367 | 17 | 350 | 472 |
| Retail banking | 45 | 5 | 50 | 6 | 44 | 52 |
| Total consumer banking | 493 | 359 | 852 | 42 | 810 | 1,218 |
| **Commercial Banking:** | | | | | | |
| Commercial and multifamily real estate | 120 | 26 | 146 | 23 | 123 | 163 |
| Commercial and industrial | 161 | 55 | 216 | 16 | 200 | 233 |
| Total commercial lending | 281 | 81 | 362 | 39 | 323 | 396 |
| Small-ticket commercial real estate | 3 | 5 | 8 | 0 | 8 | 10 |
| Total commercial banking | 284 | 86 | 370 | 39 | 331 | 406 |
| Total | $ 1,469 | $ 445 | $ 1,914 | $ 300 | $ 1,614 | $ 2,296 |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Average Recorded Investment | Interest Income Recognized | Average Recorded Investment | Interest Income Recognized |
| **Credit Card:** | | | | |
| Domestic credit card | $ 573 | $ 15 | $ 585 | $ 30 |
| International credit card | 165 | 3 | 167 | 6 |
| Total credit card[2] | 738 | 18 | 752 | 36 |
| **Consumer Banking:** | | | | |
| Auto[3] | 373 | 17 | 367 | 34 |
| Home loan | 408 | 2 | 404 | 3 |
| Retail banking | 77 | 0 | 81 | 1 |
| Total consumer banking | 858 | 19 | 852 | 38 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | 200 | 1 | 180 | 3 |
| Commercial and industrial | 178 | 1 | 180 | 2 |
| Total commercial lending | 378 | 2 | 360 | 5 |
| Small-ticket commercial real estate | 11 | 0 | 9 | 0 |
| Total commercial banking | 389 | 2 | 369 | 5 |
| Total | $ 1,985 | $ 39 | $ 1,973 | $ 79 |

(1) Impaired loans include loans modified in Troubled Debt Restructurings ("TDRs"), all nonperforming commercial loans, and nonperforming home loans with a specific impairment.

(2) Credit card loans include finance charges and fees.

(3) Although auto loans from loan recovery inventory are not reported in our loans held for investment, they are included as impaired loans above since they are reported as TDRs.

Loans modified in TDRs accounted for $1.7 billion of the impaired loans presented above as of both June 30, 2015 and December 31, 2014. Consumer TDRs classified as performing totaled $1.0 billion as of both June 30, 2015 and December 31, 2014. Commercial TDRs classified as performing totaled $211 million and $194 million as of June 30, 2015 and December 31, 2014, respectively.

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, recorded investment amounts and financial effects of loans modified in TDRs during the three and six months ended June 30, 2015 and 2014:

**Table 4.10: Troubled Debt Restructurings**

| | | Three Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reduced Interest Rate | | Term Extension | | Balance Reduction | |
| *(Dollars in millions)* | Total Loans Modified(1) | % of TDR Activity(2)(3) | Average Rate Reduction(4) | % of TDR Activity(3)(5) | Average Term Extension (Months)(6) | % of TDR Activity(3)(7) | Gross Balance Reduction(8) |
| **Credit Card:** | | | | | | | |
| Domestic credit card | $ 68 | 100% | 12.03% | 0% | 0 | 0% | $ 0 |
| International credit card | 30 | 100 | 25.95 | 0 | 0 | 0 | 0 |
| Total credit card | 98 | 100 | 16.25 | 0 | 0 | 0 | 0 |
| **Consumer Banking:** | | | | | | | |
| Auto | 81 | 40 | 4.11 | 68 | 7 | 31 | 23 |
| Home loan | 10 | 37 | 3.17 | 60 | 188 | 23 | 0 |
| Retail banking | 5 | 3 | 6.93 | 76 | 7 | 0 | 0 |
| Total consumer banking | 96 | 37 | 4.03 | 67 | 23 | 29 | 23 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 0 | 0 | 0.00 | 0 | 0 | 100 | 0 |
| Commercial and industrial | 30 | 0 | 1.14 | 98 | 4 | 0 | 0 |
| Total commercial lending | 30 | 0 | 1.14 | 98 | 4 | 0 | 0 |
| Small-ticket commercial real estate | 1 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| Total commercial banking | 31 | 0 | 1.14 | 97 | 4 | 0 | 0 |
| Total | $ 225 | 60 | 12.98 | 42 | 17 | 12 | $ 23 |

| | | Six Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reduced Interest Rate | | Term Extension | | Balance Reduction | |
| *(Dollars in millions)* | Total Loans Modified(1) | % of TDR Activity(2)(3) | Average Rate Reduction(4) | % of TDR Activity(3)(5) | Average Term Extension (Months)(6) | % of TDR Activity(3)(7) | Gross Balance Reduction(8) |
| **Credit Card:** | | | | | | | |
| Domestic credit card | $ 140 | 100% | 12.08% | 0% | 0 | 0% | $ 0 |
| International credit card | 62 | 100 | 25.86 | 0 | 0 | 0 | 0 |
| Total credit card | 202 | 100 | 16.32 | 0 | 0 | 0 | 0 |
| **Consumer Banking:** | | | | | | | |
| Auto | 169 | 41 | 2.82 | 69 | 8 | 30 | 45 |
| Home loan | 17 | 50 | 2.98 | 62 | 181 | 13 | 0 |
| Retail banking | 10 | 31 | 8.09 | 83 | 6 | 0 | 0 |
| Total consumer banking | 196 | 41 | 3.05 | 70 | 22 | 27 | 45 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 3 | 0 | 0.00 | 97 | 34 | 78 | 1 |
| Commercial and industrial | 51 | 0 | 1.50 | 59 | 5 | 0 | 0 |
| Total commercial lending | 54 | 0 | 1.50 | 61 | 7 | 4 | 1 |
| Small-ticket commercial real estate | 1 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| Total commercial banking | 55 | 0 | 1.50 | 60 | 7 | 4 | 1 |
| Total | $ 453 | 62 | 12.55 | 37 | 19 | 12 | $ 46 |

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| | Three Months Ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reduced Interest Rate | | Term Extension | | Balance Reduction | |
| *(Dollars in millions)* | Total Loans Modified[(1)] | % of TDR Activity[(2)(3)] | Average Rate Reduction[(4)] | % of TDR Activity[(3)(5)] | Average Term Extension (Months)[(6)] | % of TDR Activity[(3)(7)] | Gross Balance Reduction[(8)] |
| **Credit Card:** | | | | | | | |
| Domestic credit card | $ 64 | 100% | 11.54% | 0% | 0 | 0% | $ 0 |
| International credit card | 38 | 100 | 25.46 | 0 | 0 | 0 | 0 |
| Total credit card | 102 | 100 | 16.83 | 0 | 0 | 0 | 0 |
| **Consumer Banking:** | | | | | | | |
| Auto | 69 | 32 | 1.45 | 58 | 9 | 41 | 25 |
| Home loan | 11 | 38 | 2.32 | 33 | 164 | 4 | 0 |
| Retail banking | 2 | 5 | 7.57 | 95 | 10 | 0 | 0 |
| Total consumer banking | 82 | 32 | 1.62 | 56 | 22 | 34 | 25 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 4 | 0 | 0.00 | 0 | 0 | 100 | 2 |
| Commercial and industrial | 12 | 0 | 0.00 | 57 | 11 | 0 | 0 |
| Total commercial lending | 16 | 0 | 0.00 | 42 | 11 | 26 | 2 |
| Small-ticket commercial real estate | 1 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| Total commercial banking | 17 | 0 | 0.00 | 39 | 11 | 24 | 2 |
| Total | $ 201 | 64 | 13.73 | 26 | 20 | 16 | $ 27 |

| | Six Months Ended June 30, 2014 | | | | | | |
|---|---|---|---|---|---|---|---|
| | | Reduced Interest Rate | | Term Extension | | Balance Reduction | |
| *(Dollars in millions)* | Total Loans Modified[(1)] | % of TDR Activity[(2)(3)] | Average Rate Reduction[(4)] | % of TDR Activity[(3)(5)] | Average Term Extension (Months)[(6)] | % of TDR Activity[(3)(7)] | Gross Balance Reduction[(8)] |
| **Credit Card:** | | | | | | | |
| Domestic credit card | $ 131 | 100% | 11.52% | 0% | 0 | 0% | $ 0 |
| International credit card | 81 | 100 | 25.33 | 0 | 0 | 0 | 0 |
| Total credit card | 212 | 100 | 16.83 | 0 | 0 | 0 | 0 |
| **Consumer Banking:** | | | | | | | |
| Auto | 146 | 36 | 1.02 | 63 | 9 | 36 | 47 |
| Home loan | 19 | 30 | 2.04 | 32 | 153 | 8 | 1 |
| Retail banking | 8 | 7 | 5.07 | 71 | 7 | 0 | 0 |
| Total consumer banking | 173 | 34 | 1.16 | 60 | 18 | 31 | 48 |
| **Commercial Banking:** | | | | | | | |
| Commercial and multifamily real estate | 66 | 31 | 1.28 | 94 | 8 | 6 | 2 |
| Commercial and industrial | 13 | 0 | 0.00 | 58 | 11 | 0 | 0 |
| Total commercial lending | 79 | 26 | 1.10 | 88 | 9 | 5 | 2 |
| Small-ticket commercial real estate | 1 | 0 | 0.00 | 0 | 0 | 0 | 0 |
| Total commercial banking | 80 | 26 | 1.08 | 87 | 9 | 5 | 2 |
| Total | $ 465 | 63 | 12.55 | 37 | 14 | 13 | $ 50 |

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

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

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

(4) Represents weighted average interest rate reduction for those loans that received an interest rate concession.

(5) Represents percentage of loans modified and accounted for as TDRs during the period that were granted a maturity date extension.

(6) Represents weighted average change in maturity date for those loans that received a maturity date extension.

(7) Represents percentage of loans modified and accounted for as TDRs during the period that were granted forgiveness or forbearance of a portion of their balance.

(8) 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.

### TDR—Subsequent Defaults of Completed TDR Modifications

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

**Table 4.11: TDR - Subsequent Defaults**

| | Three Months Ended June 30, 2015 | | Six Months Ended June 30, 2015 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Number of Contracts | Amount | Number of Contracts | Amount |
| **Credit Card:** | | | | |
| Domestic credit card | 9,661 | $ 16 | 19,328 | $ 32 |
| International credit card[1] | 8,624 | 23 | 17,172 | 43 |
| Total credit card | 18,285 | 39 | 36,500 | 75 |
| **Consumer Banking:** | | | | |
| Auto | 2,128 | 24 | 3,875 | 44 |
| Home loan | 2 | 0 | 7 | 0 |
| Retail banking | 4 | 0 | 14 | 1 |
| Total consumer banking | 2,134 | 24 | 3,896 | 45 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | 0 | 0 | 0 | 0 |
| Commercial and industrial | 3 | 17 | 3 | 17 |
| Total commercial lending | 3 | 17 | 3 | 17 |
| Small-ticket commercial real estate | 0 | 0 | 0 | 0 |
| Total commercial banking | 3 | 17 | 3 | 17 |
| Total | 20,422 | $ 80 | 40,399 | $ 137 |

| | Three Months Ended June 30, 2014 | | Six Months Ended June 30, 2014 | |
|---|---|---|---|---|
| *(Dollars in millions)* | Number of Contracts | Total Loans | Number of Contracts | Total Loans |
| **Credit Card:** | | | | |
| Domestic credit card | 9,559 | $ 15 | 20,620 | $ 31 |
| International credit card[1] | 9,883 | 30 | 20,404 | 60 |
| Total credit card | 19,442 | 45 | 41,024 | 91 |
| **Consumer Banking:** | | | | |
| Auto | 1,651 | 18 | 2,973 | 31 |
| Home loan | 4 | 0 | 10 | 2 |
| Retail banking | 15 | 2 | 40 | 9 |
| Total consumer banking | 1,670 | 20 | 3,023 | 42 |
| **Commercial Banking:** | | | | |
| Commercial and multifamily real estate | 1 | 0 | 4 | 6 |
| Commercial and industrial | 1 | 1 | 2 | 1 |
| Total commercial lending | 2 | 1 | 6 | 7 |
| Small-ticket commercial real estate | 2 | 1 | 8 | 3 |
| Total commercial banking | 4 | 2 | 14 | 10 |
| Total | 21,116 | $ 67 | 44,061 | $ 143 |

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

## Acquired Loans Accounted for Based on Expected Cash Flows

### *Outstanding Balance and Carrying Value of Acquired Loans*

The table below presents the outstanding balance and the carrying value of loans from the ING Direct, CCB and 2012 U.S. card acquisitions accounted for based on expected cash flows as of June 30, 2015 and December 31, 2014. The table separately displays loans considered credit-impaired at acquisition and loans not considered credit-impaired at acquisition.

**Table 4.12: Acquired Loans Accounted for Based on Expected Cash Flows**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Total | Impaired Loans | Non-Impaired Loans | Total | Impaired Loans | Non-Impaired Loans |
| Outstanding balance | **$ 22,604** | **$ 4,006** | **$ 18,598** | $ 25,201 | $ 4,279 | $ 20,922 |
| Carrying value[1] | **20,974** | **2,699** | **18,275** | 23,519 | 2,882 | 20,637 |

(1) Includes $34 million and $27 million of allowance for loan and lease losses for these loans as of June 30, 2015 and December 31, 2014, respectively. We recorded a $7 million provision and a $6 million release of the allowance for credit losses for the six months ended June 30, 2015 and 2014, respectively, for certain pools of Acquired Loans.

### *Changes in Accretable Yield*

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

**Table 4.13: Changes in Accretable Yield on Acquired Loans**

| | Three Months Ended June 30, 2015 | | | Six Months Ended June 30, 2015 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Total Loans | Impaired Loans | Non-Impaired Loans | Total Loans | Impaired Loans | Non-Impaired Loans |
| Accretable yield, beginning of period | $ 4,561 | $ 1,527 | $ 3,034 | $ 4,653 | $ 1,485 | $ 3,168 |
| Accretion recognized in earnings | **(208)** | **(70)** | **(138)** | **(445)** | **(157)** | **(288)** |
| Reclassifications from (to) nonaccretable difference for loans with changing cash flows[1] | **(1)** | **0** | **(1)** | **34** | **45** | **(11)** |
| Changes in accretable yield for non-credit related changes in expected cash flows[2] | **(355)** | **(45)** | **(310)** | **(245)** | **39** | **(284)** |
| Accretable yield, end of period | **$ 3,997** | **$ 1,412** | **$ 2,585** | **$ 3,997** | **$ 1,412** | **$ 2,585** |

(1) Represents changes in accretable yield for those loans in pools that are driven primarily by credit performance.

(2) Represents changes in accretable yield for those loans in pools that are driven primarily by changes in actual and estimated prepayments.

### 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 $306.5 billion and $292.9 billion as of June 30, 2015 and December 31, 2014, 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 (“LTV”) 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 $23.8 billion and $24.5 billion, which included $1.2 billion and $924 million advised lines of credit as of June 30, 2015 and December 31, 2014, respectively. Advised lines of credit are not considered legally binding commitments as funding is subject to our satisfactory evaluation of the customer at the time credit is requested.

## NOTE 5—ALLOWANCE FOR LOAN AND LEASE LOSSES

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease losses inherent in our loans held for investment portfolio as of each balance sheet date. 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 in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. See "Note 1—Summary of Significant Accounting Policies" of our 2014 Form 10-K for further discussion on the methodology and policy 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 recorded in earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our net charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance for loan and lease losses and subsequent recoveries are included.

We have certain credit card partnership arrangements in which our partner agrees to share in a portion of the credit losses associated with the partnership. The loss sharing amounts due from these partners resulted in reductions in reported charge-offs of $45 million and $39 million for the three months ended June 30, 2015 and 2014, respectively, and $89 million and $81 million for the six months ended June 30, 2015 and 2014, respectively, and reductions in the provision for loan and lease losses of $62 million and $46 million for the three months ended June 30, 2015 and 2014, respectively, and $119 million and $81 million for the six months ended June 30, 2015 and 2014, respectively. The expected reimbursement from these partners, which is netted against our allowance for loan and lease losses, was approximately $173 million and $143 million as of June 30, 2015 and December 31, 2014, respectively. See "Note 1—Summary of Significant Accounting Policies" of our 2014 Form 10-K for further discussion on our card partnership agreements.

The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, for the three and six months ended June 30, 2015 and 2014.

**Table 5.1: Allowance for Loan and Lease Losses**

| | Three Months Ended June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other[1] | Total Allowance | Unfunded Lending Commitments Reserve | Combined Allowance & Unfunded Reserve |
| Balance as of March 31, 2015 | $ 3,130 | $ 697 | $ 68 | $ 61 | $ 826 | $ 444 | $ 5 | $ 4,405 | $ 121 | $ 4,526 |
| Provision for credit losses | **895** | **168** | **0** | **17** | **185** | **35** | **0** | **1,115** | **14** | **1,129** |
| Charge-offs | **(988)** | **(203)** | **(5)** | **(17)** | **(225)** | **(11)** | **(2)** | **(1,226)** | **0** | **(1,226)** |
| Recoveries | **285** | **82** | **2** | **5** | **89** | **4** | **2** | **380** | **0** | **380** |
| Net charge-offs | **(703)** | **(121)** | **(3)** | **(12)** | **(136)** | **(7)** | **0** | **(846)** | **0** | **(846)** |
| Other changes[2] | **2** | **0** | **0** | **0** | **0** | **0** | **0** | **2** | **0** | **2** |
| Balance as of June 30, 2015 | **$ 3,324** | **$ 744** | **$ 65** | **$ 66** | **$ 875** | **$ 472** | **$ 5** | **$ 4,676** | **$ 135** | **$ 4,811** |

| | Six Months Ended June 30, 2015 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other[1] | Total Allowance | Unfunded Lending Commitments Reserve | Combined Allowance & Unfunded Reserve |
| Balance as of December 31, 2014 | $ 3,204 | $ 661 | $ 62 | $ 56 | $ 779 | $ 395 | $ 5 | $ 4,383 | $ 113 | $ 4,496 |
| Provision for credit losses | **1,564** | **352** | **8** | **31** | **391** | **87** | **0** | **2,042** | **22** | **2,064** |
| Charge-offs | **(2,010)** | **(436)** | **(9)** | **(30)** | **(475)** | **(20)** | **(5)** | **(2,510)** | **0** | **(2,510)** |
| Recoveries | **588** | **167** | **4** | **9** | **180** | **10** | **5** | **783** | **0** | **783** |
| Net charge-offs | **(1,422)** | **(269)** | **(5)** | **(21)** | **(295)** | **(10)** | **0** | **(1,727)** | **0** | **(1,727)** |
| Other changes[2] | **(22)** | **0** | **0** | **0** | **0** | **0** | **0** | **(22)** | **0** | **(22)** |
| Balance as of June 30, 2015 | **$ 3,324** | **$ 744** | **$ 65** | **$ 66** | **$ 875** | **$ 472** | **$ 5** | **$ 4,676** | **$ 135** | **$ 4,811** |

| | Three Months Ended June 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other[1] | Total Allowance | Unfunded Lending Commitments Reserve | Combined Allowance & Unfunded Reserve |
| Balance as of March 31, 2014 | $ 2,984 | $ 608 | $ 72 | $ 64 | $ 744 | $ 362 | $ 8 | $ 4,098 | $ 99 | $ 4,197 |
| Provision (benefit) for credit losses | 549 | 145 | 0 | (2) | 143 | 9 | 0 | 701 | 3 | 704 |
| Charge-offs | (995) | (183) | (8) | (14) | (205) | (8) | (4) | (1,212) | 0 | (1,212) |
| Recoveries | 310 | 72 | 3 | 8 | 83 | 5 | 2 | 400 | 0 | 400 |
| Net charge-offs | (685) | (111) | (5) | (6) | (122) | (3) | (2) | (812) | 0 | (812) |
| Other changes[2] | 10 | 0 | 0 | 0 | 0 | 0 | 1 | 11 | 0 | 11 |
| Balance as of June 30, 2014 | $ 2,858 | $ 642 | $ 67 | $ 56 | $ 765 | $ 368 | $ 7 | $ 3,998 | $ 102 | $ 4,100 |

| | Six Months Ended June 30, 2014 | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other[1] | Total Allowance | Unfunded Lending Commitments Reserve | Combined Allowance & Unfunded Reserve |
| Balance as of December 31, 2013 | $ 3,214 | $ 606 | $ 83 | $ 63 | $ 752 | $ 338 | $ 11 | $ 4,315 | $ 87 | $ 4,402 |
| Provision (benefit) for credit losses | 1,107 | 281 | (6) | 8 | 283 | 37 | (3) | 1,424 | 15 | 1,439 |
| Charge-offs | (2,090) | (388) | (19) | (29) | (436) | (15) | (6) | (2,547) | 0 | (2,547) |
| Recoveries | 625 | 143 | 9 | 14 | 166 | 8 | 5 | 804 | 0 | 804 |
| Net charge-offs | (1,465) | (245) | (10) | (15) | (270) | (7) | (1) | (1,743) | 0 | (1,743) |
| Other changes[2] | 2 | 0 | 0 | 0 | 0 | 0 | 0 | 2 | 0 | 2 |
| Balance as of June 30, 2014 | $ 2,858 | $ 642 | $ 67 | $ 56 | $ 765 | $ 368 | $ 7 | $ 3,998 | $ 102 | $ 4,100 |

[1] Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.

[2] Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

### 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 portfolio segment and impairment methodology, and the recorded investment of the related loans as of June 30, 2015 and December 31, 2014.

**Table 5.2: Components of Allowance for Loan and Lease Losses by Impairment Methodology**

| | June 30, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other | Total |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Collectively evaluated[1] | **$ 3,118** | **$ 723** | **$ 17** | **$ 55** | **$ 795** | **$ 399** | **$ 5** | **$ 4,317** |
| Asset-specific[2] | **206** | **21** | **15** | **11** | **47** | **72** | **0** | **325** |
| Acquired Loans[3] | **0** | **0** | **33** | **0** | **33** | **1** | **0** | **34** |
| Total allowance for loan and lease losses | **$ 3,324** | **$ 744** | **$ 65** | **$ 66** | **$ 875** | **$ 472** | **$ 5** | **$ 4,676** |
| **Loans held for investment:** | | | | | | | | |
| Collectively evaluated[1] | **$ 86,533** | **$ 39,737** | **$ 6,453** | **$ 3,496** | **$ 49,686** | **$ 50,403** | **$ 95** | **$ 186,717** |
| Asset-specific[2] | **670** | **254** | **363** | **57** | **674** | **674** | **0** | **2,018** |
| Acquired Loans[3] | **0** | **0** | **20,779** | **37** | **20,816** | **154** | **0** | **20,970** |
| Total loans held for investment | **$ 87,203** | **$ 39,991** | **$ 27,595** | **$ 3,590** | **$ 71,176** | **$ 51,231** | **$ 95** | **$ 209,705** |
| Allowance as a percentage of period-end loans held for investment | **3.81%** | **1.86%** | **0.24%** | **1.86%** | **1.23%** | **0.92%** | **5.13%** | **2.23%** |

| | December 31, 2014 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | | Consumer Banking | | | | | | |
| *(Dollars in millions)* | Credit Card | Auto | Home Loan | Retail Banking | Total Consumer Banking | Commercial Banking | Other | Total |
| **Allowance for loan and lease losses:** | | | | | | | | |
| Collectively evaluated[1] | $ 2,985 | $ 642 | $ 18 | $ 50 | $ 710 | $ 356 | $ 5 | $ 4,056 |
| Asset-specific[2] | 219 | 19 | 17 | 6 | 42 | 39 | 0 | 300 |
| Acquired Loans[3] | 0 | 0 | 27 | 0 | 27 | 0 | 0 | 27 |
| Total allowance for loan and lease losses | $ 3,204 | $ 661 | $ 62 | $ 56 | $ 779 | $ 395 | $ 5 | $ 4,383 |
| **Loans held for investment:** | | | | | | | | |
| Collectively evaluated[1] | $ 85,161 | $ 37,594 | $ 6,427 | $ 3,486 | $ 47,507 | $ 50,328 | $ 111 | $ 183,107 |
| Asset-specific[2] | 692 | 230 | 367 | 50 | 647 | 370 | 0 | 1,709 |
| Acquired Loans[3] | 23 | 0 | 23,241 | 44 | 23,285 | 192 | 0 | 23,500 |
| Total loans held for investment | $ 85,876 | $ 37,824 | $ 30,035 | $ 3,580 | $ 71,439 | $ 50,890 | $ 111 | $ 208,316 |
| Allowance as a percentage of period-end loans held for investment | 3.73% | 1.75% | 0.21% | 1.58% | 1.09% | 0.78% | 4.68% | 2.10% |

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(1) The component of the allowance for loan and lease losses for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation supplemented by management judgment and interpretation. The component of the allowance for loan and lease losses 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 loan and lease losses 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 loan and lease losses for larger-balance commercial loans is individually calculated for each loan.

(3) The Acquired Loans component of the allowance for loan and lease losses is accounted for based on expected cash flows. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for details on these loans.

## 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. Our primary involvement with VIEs has been related to our securitization transactions in which we transferred assets from our balance sheet to securitization trusts. We have primarily securitized credit card loans and home 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 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 June 30, 2015 and December 31, 2014. 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. 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 the 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 become worthless and we are required to meet our maximum remaining funding obligations.

**Table 6.1: Carrying Amount of Consolidated and Unconsolidated VIEs**

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| | Consolidated | | Unconsolidated | | |
| *(Dollars in millions)* | Carrying Amount of Assets | Carrying Amount of Liabilities | Carrying Amount of Assets | Carrying Amount of Liabilities | Maximum Exposure to Loss |
| **Securitization-Related VIEs:** | | | | | |
| Credit card loan securitizations[1] | $ 34,551 | $ 14,500 | $ 0 | $ 0 | $ 0 |
| Home loan securitizations[2] | 0 | 0 | 220 | 29 | 886 |
| Total securitization-related VIEs | 34,551 | 14,500 | 220 | 29 | 886 |
| **Other VIEs:** | | | | | |
| Affordable housing entities | 0 | 0 | 3,633 | 501 | 3,633 |
| Entities that provide capital to low-income and rural communities | 385 | 100 | 0 | 0 | 0 |
| Other | 0 | 0 | 65 | 0 | 65 |
| Total other VIEs | 385 | 100 | 3,698 | 501 | 3,698 |
| Total VIEs | $ 34,936 | $ 14,600 | $ 3,918 | $ 530 | $ 4,584 |

| | December 31, 2014 | | | | |
|---|---|---|---|---|---|
| | Consolidated | | Unconsolidated | | |
| (Dollars in millions) | Carrying Amount of Assets | Carrying Amount of Liabilities | Carrying Amount of Assets | Carrying Amount of Liabilities | Maximum Exposure to Loss |
| **Securitization-Related VIEs:** | | | | | |
| Credit card loan securitizations[1] | $ 36,779 | $ 12,350 | $ 0 | $ 0 | $ 0 |
| Home loan securitizations[2] | 0 | 0 | 221 | 31 | 876 |
| Total securitization-related VIEs | 36,779 | 12,350 | 221 | 31 | 876 |
| **Other VIEs:** | | | | | |
| Affordable housing entities | 0 | 0 | 3,500 | 488 | 3,500 |
| Entities that provide capital to low-income and rural communities | 374 | 99 | 1 | 0 | 1 |
| Other | 4 | 0 | 74 | 0 | 74 |
| Total other VIEs | 378 | 99 | 3,575 | 488 | 3,575 |
| Total VIEs | $ 37,157 | $ 12,449 | $ 3,796 | $ 519 | $ 4,451 |

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

(2) The carrying amount of assets of unconsolidated securitization-related VIEs consists of retained interests associated with the securitization of option-adjustable rate mortgage loans ("option-ARM") and letters of credit related to manufactured housing securitizations. These are reported on our consolidated balance sheets under other assets. The carrying amount of liabilities of unconsolidated securitization-related VIEs is comprised of obligations on certain swap agreements associated with the securitization of manufactured housing loans and other obligations. These are reported on our consolidated balance sheets under other liabilities.

## Securitization-Related VIEs

In a securitization transaction, assets from our balance sheet are transferred to a trust we establish, which typically meets the definition of a VIE. Our continuing involvement in the majority of our securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. We have the option to repurchase receivables from the trust if the outstanding balance of the receivables falls to a level where the cost exceeds the benefit of servicing such receivables. In some cases, we are contractually required to exercise the repurchase option if the primary servicer fails to do so. 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, Guarantees and Others" for information related to reserves we have established for our mortgage representation and warranty exposure.

The table below presents the securitization-related VIEs in which we had continuing involvement as of June 30, 2015 and December 31, 2014.

**Table 6.2: Continuing Involvement in Securitization-Related VIEs**

| | Non-Mortgage | Mortgage | | |
|---|---|---|---|---|
| *(Dollars in millions)* | Credit Card | Option-ARM | GreenPoint HELOCs | GreenPoint Manufactured Housing |
| June 30, 2015: | | | | |
| Securities held by third-party investors | **$ 13,785** | **$ 1,888** | **$ 85** | **$ 836** |
| Receivables in the trust | **34,298** | **1,952** | **80** | **842** |
| Cash balance of spread or reserve accounts | **0** | **8** | **N/A** | **139** |
| Retained interests | **Yes** | **Yes** | **Yes** | **Yes** |
| Servicing retained | **Yes** | **Yes** [(1)] | **No** | **No** [(2)] |
| Amortization event[(3)] | **No** | **No** | **No** | **No** |
| December 31, 2014: | | | | |
| Securities held by third-party investors | $ 11,624 | $ 2,026 | $ 95 | $ 887 |
| Receivables in the trust | 36,545 | 2,094 | 89 | 893 |
| Cash balance of spread or reserve accounts | 0 | 8 | N/A | 143 |
| Retained interests | Yes | Yes | Yes | Yes |
| Servicing retained | Yes | Yes [(1)] | No [(1)] | No [(2)] |
| Amortization event[(3)] | No | No | No | No |

(1) We retained servicing of the outstanding balance for a portion of securitized mortgage receivables.

(2) The core servicing activities for the manufactured housing securitizations are completed by a third party.

(3) Amortization events vary according to each specific trust agreement but generally are triggered by declines in performance or credit metrics, such as net 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 June 30, 2015 and December 31, 2014, 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.

### *Mortgage Securitizations*

*Option-ARM Loans*

We had previously securitized option-ARM 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 $1.9 billion and $2.0 billion as of June 30, 2015 and December 31, 2014, respectively.

We continue to service a portion 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 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. For the trusts that we continue to service, we do not consolidate these entities because we do not have the right to receive benefits nor the obligation to absorb losses that could potentially be significant to the trusts. For the remaining trusts, for which we no longer service the underlying mortgage loans, we do not consolidate these entities since we do not have the power to direct the activities that most significantly impact the economic performance of 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 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. Our maximum exposure is affected by rate caps and monthly payment change caps, but the funding obligation cannot exceed the difference between the original loan balance multiplied by a preset negative amortization cap and the current unpaid principal balance.

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 in our consolidated statements of income. See "Note 9—Derivative Instruments and Hedging Activities" for further details on these derivatives.

*GreenPoint Mortgage Home Equity Lines of Credit ("HELOCs")*

Our discontinued wholesale mortgage banking unit, GreenPoint, previously sold HELOCs in whole loan sales and subsequently acquired residual interests in certain trusts which securitized some of those loans. We do not consolidate these trusts because we either lack the power to direct the activities that most significantly impact the economic performance of the trusts or because we do not have the right to receive benefits or the obligation to absorb losses that could potentially be significant to the trusts. As the residual interest holder, GreenPoint is required to fund advances on the HELOCs when certain performance triggers are met due to deterioration in asset performance. On behalf of GreenPoint, we have funded cumulative advances of $30 million as of both June 30, 2015 and December 31, 2014. These advances are generally expensed as funded due to the low likelihood of recovery. We also have unfunded commitments of $6 million related to those interests for our non-consolidated VIEs as of both June 30, 2015 and December 31, 2014.

*GreenPoint Credit 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, which was a subsidiary of GreenPoint and was sold to a third party in 2004. Although we are the primary obligor, recourse obligations related to aforementioned whole loan sales, commitments to exercise mandatory clean-up calls on certain 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 unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was $842 million and $893 million as of June 30, 2015 and December 31, 2014, respectively. In the event the third-party servicer does not fulfill its obligation to exercise the clean-up calls on certain transactions, the obligation 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.

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.

We account for certain of our investments in qualified affordable housing projects using the proportional amortization method if certain criteria are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. For the six months ended June 30, 2015 and 2014, we recognized amortization of $172 million and $144 million, respectively, and tax credits of $191 million and $178 million, respectively, associated with these investments within income tax provision. The carrying value of our investments in these qualified affordable housing projects was $3.3 billion and $3.2 billion as of June 30, 2015 and December 31, 2014, respectively. We are periodically required to provide additional financial or other support during the period of the investments. We had a recorded liability of $1.3 billion for these unfunded commitments as of June 30, 2015, which is expected to be paid from 2015 to 2018.

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. Our interests consisted of assets of approximately $3.6 billion and $3.5 billion as of June 30, 2015 and December 31, 2014, respectively. Our maximum exposure to these entities is limited to our variable interests in the entities of $3.6 billion and $3.5 billion as of June 30, 2015 and December 31, 2014, respectively. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support other than during the period that we are contractually required to provide. The total assets of the unconsolidated VIE investment funds was $10.8 billion and $10.2 billion as of June 30, 2015 and December 31, 2014, 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 where we have 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 are not considered to be VIEs, but where we hold a controlling financial interest. The assets of the VIEs that we consolidated, which totaled approximately $385 million and $374 million as of June 30, 2015 and December 31, 2014, respectively, 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 creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide.

***Other***

Other VIEs include a variable interest that we hold 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 $139 million and $159 million as of June 30, 2015 and December 31, 2014, respectively. We were not required to consolidate the trust because we do not have the power to direct the activities that most significantly impact the trust's economic performance. Our maximum exposure to this entity is limited to our retained interest of $65 million and $74 million as of June 30, 2015 and December 31, 2014, respectively. The creditors of the trust have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide.

## NOTE 7—GOODWILL AND INTANGIBLE ASSETS

The table below displays the components of goodwill, intangible assets and Mortgage Servicing Rights (“MSRs”) as of June 30, 2015 and December 31, 2014. Goodwill is presented separately on our consolidated balance sheets. Intangible assets and MSRs are included in other assets on our consolidated balance sheets.

**Table 7.1: Components of Goodwill, Intangible Assets and MSRs**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Carrying Amount of Assets[1] | Accumulated Amortization[1] | Net Carrying Amount | Carrying Amount of Assets[1] | Accumulated Amortization[1] | Net Carrying Amount |
| Goodwill | **$ 13,984** | **N/A** | **$ 13,984** | $ 13,978 | N/A | $ 13,978 |
| Intangible assets: | | | | | | |
| Purchased credit card relationship (“PCCR”) intangibles | **2,156** | **$ (1,315)** | **841** | 2,124 | $ (1,152) | 972 |
| Core deposit intangibles | **1,771** | **(1,620)** | **151** | 1,771 | (1,569) | 202 |
| Other[2] | **239** | **(121)** | **118** | 300 | (158) | 142 |
| Total intangible assets | **4,166** | **(3,056)** | **1,110** | 4,195 | (2,879) | 1,316 |
| Total goodwill and intangible assets | **$ 18,150** | **$ (3,056)** | **$ 15,094** | $ 18,173 | $ (2,879) | $ 15,294 |
| MSRs: | | | | | | |
| Consumer MSRs[3] | **$ 65** | **N/A** | **$ 65** | $ 53 | N/A | $ 53 |
| Commercial MSRs[4] | **195** | **$ (36)** | **159** | 171 | $ (24) | 147 |
| Total MSRs | **$ 260** | **$ (36)** | **$ 224** | $ 224 | $ (24) | $ 200 |

(1) Certain intangible assets that were fully amortized in prior periods were removed from our consolidated balance sheets.

(2) Primarily consists of brokerage relationship intangibles, partnership and other contract intangibles and trade name intangibles. Also includes certain indefinite-lived intangibles of $4 million as of both June 30, 2015 and December 31, 2014.

(3) Represents MSRs related to our Consumer Banking business that are carried at fair value on our consolidated balance sheets.

(4) Represents MSRs related to our Commercial Banking business that are subsequently measured under the amortization method and periodically assessed for impairment.

Amortization expense for amortizable intangible assets, which is presented separately in our consolidated statements of income, totaled $111 million and $221 million for the three and six months ended June 30, 2015, respectively, and $136 million and $279 million for the three and six months ended June 30, 2014, respectively.

### Goodwill

The following table presents goodwill attributable to each of our business segments as of June 30, 2015 and December 31, 2014.

**Table 7.2: Goodwill Attributable to Business Segments**

| *(Dollars in millions)* | Credit Card | Consumer Banking | Commercial Banking | Total |
|---|---|---|---|---|
| Balance as of December 31, 2014 | $ 5,001 | $ 4,593 | $ 4,384 | $ 13,978 |
| Acquisitions | **0** | **5** | **0** | **5** |
| Other adjustments | **1** | **0** | **0** | **1** |
| Balance as of June 30, 2015 | **$ 5,002** | **$ 4,598** | **$ 4,384** | **$ 13,984** |

## NOTE 8—DEPOSITS AND BORROWINGS

**Deposits**

Our deposits, which are our largest source of funding for our asset growth and operations, consist of non-interest bearing and interest-bearing deposits, which include checking accounts, money market deposit accounts, negotiable order of withdrawals, savings deposits and time deposits.

**Securitized and Unsecured Debt Obligations**

We use a variety of funding sources other than deposits, including short-term borrowings, the issuance of senior and subordinated notes and other borrowings, and securitization transactions. In addition, we utilize Federal Home Loan Banks ("FHLB") advances, which are secured by certain portions of our loan and investment securities portfolios, for our funding needs. The securitized debt obligations are separately presented on our consolidated balance sheets, while federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including FHLB advances, are included in other debt on our consolidated balance sheets.

***Securitized Debt Obligations***

Our outstanding borrowings due to securitization investors were $13.8 billion and $11.6 billion as of June 30, 2015 and December 31, 2014, respectively. During the first six months of 2015, $2.3 billion of new debt was issued to third-party investors from our loan securitization trusts, offset by $175 million of debt maturities.

***Senior and Subordinated Notes***

As of June 30, 2015, we had $20.0 billion of senior and subordinated notes outstanding, net of fair value hedging losses of $103 million. As of December 31, 2014, we had $18.7 billion of senior and subordinated notes outstanding, net of fair value hedging losses of $179 million. During the first six months of 2015, we issued $3.0 billion of long-term senior unsecured debt, comprised of $400 million of floating rate notes and $2.6 billion of fixed rate notes. During the first six months of 2015, $1.6 billion of outstanding unsecured notes matured. See "Note 9—Derivative Instruments and Hedging Activities" for information about our fair value hedging activities.

**FHLB Advances and Other**

In addition to the issuance capacity under the registration statement, we also have access to funding through the FHLB system and the Federal Reserve Discount Window. Our FHLB and Federal Reserve memberships require us to hold FHLB and Federal Reserve stock which totaled $1.6 billion and $2.0 billion as of June 30, 2015 and December 31, 2014, respectively, and are included in other assets on our consolidated balance sheets.

We had outstanding FHLB advances and lines of credit, which were secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and HELOCs, totaling $10.1 billion and $17.3 billion as of June 30, 2015 and December 31, 2014, respectively. We did not access the Federal Reserve Discount Window for funding during 2015 or 2014.

**Composition of 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 June 30, 2015 and December 31, 2014. Our total short-term borrowings consist of federal funds purchased and securities loaned or 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.

**Table 8.1: Components of Deposits, Short-Term Borrowings and Long-Term Debt**

| *(Dollars in millions)* | June 30, 2015 | December 31, 2014 |
|---|---|---|
| **Deposits:** | | |
| Non-interest bearing deposits | **$ 25,123** | $ 25,081 |
| Interest-bearing deposits | **183,657** | 180,467 |
| Total deposits | **$ 208,780** | $ 205,548 |
| **Short-term borrowings:** | | |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | **$ 1,888** | $ 880 |
| FHLB advances | **0** | 16,200 |
| Total short-term borrowings | **$ 1,888** | $ 17,080 |

| | June 30, 2015 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Maturity Dates | Interest Rates | Weighted-Average Interest Rate | Outstanding Amount | December 31, 2014 |
| **Long-term debt:** | | | | | |
| Securitized debt obligations[(1)] | **2015 - 2025** | **0.23 - 5.75%** | **1.37%** | **$ 13,785** | $ 11,624 |
| Senior and subordinated notes:[(1)] | | | | | |
| Fixed unsecured senior debt | **2015 - 2025** | **1.00 - 6.75%** | **2.67** | **16,097** | 15,174 |
| Floating unsecured senior debt | **2015 - 2018** | **0.73 - 0.96%** | **0.86** | **1,280** | 880 |
| Total unsecured senior debt | | | **2.54** | **17,377** | 16,054 |
| Fixed unsecured subordinated debt | **2016 - 2023** | **3.38 - 8.80%** | **4.97** | **2,610** | 2,630 |
| Total senior and subordinated notes | | | | **19,987** | 18,684 |
| Other long-term borrowings: | | | | | |
| FHLB advances | **2015 - 2025** | **0.25 - 6.88%** | **0.28** | **10,106** | 1,069 |
| Total long-term debt | | | | **43,878** | 31,377 |
| Total short-term borrowings and long-term debt | | | | **$ 45,766** | $ 48,457 |

(1) Outstanding amount includes the impact from hedge accounting.

## Components of Interest Expense

The following table displays interest expense attributable to short-term borrowings and long-term debt for the three and six months ended June 30, 2015 and 2014:

**Table 8.2: Components of Interest Expense on Short-Term Borrowings and Long-Term Debt**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | 2015 | 2014 | 2015 | 2014 |
| **Short-term borrowings:** | | | | |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | **$ 1** | $ 1 | **$ 1** | $ 1 |
| FHLB advances | **1** | 3 | **9** | 9 |
| Total short-term borrowings | **2** | 4 | **10** | 10 |
| **Long-term debt:** | | | | |
| Securitized debt obligations[(1)] | **36** | 39 | **69** | 77 |
| Senior and subordinated notes[(1)] | **80** | 78 | **159** | 155 |
| Other long-term borrowings | **10** | 4 | **17** | 10 |
| Total long-term debt | **126** | 121 | **245** | 242 |
| Total interest expense on short-term borrowings and long-term debt | **$ 128** | $ 125 | **$ 255** | $ 252 |

(1) Interest expense includes the impact from hedge accounting.

## NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

### Use of Derivatives

We manage our asset and liability positions and market risk exposure in accordance with risk management policies and limits established by our Market and Liquidity Risk Policy which is 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 employ several techniques to manage our interest rate sensitivity, which include changing the duration and re-pricing characteristics of various assets and liabilities by using interest rate derivatives. Our current asset and liability management policy also includes the use of derivatives to hedge foreign-currency denominated exposures to limit our earnings and capital ratio exposure to foreign exchange risk. We execute our derivative contracts in both the over-the-counter ("OTC") and exchange-traded derivative markets. The majority of our derivatives are interest rate swaps. In addition, we may use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign exchange risks. We offer various interest rate and foreign exchange derivatives as an accommodation to our customers as part of our Commercial Banking business but usually offset our exposure through derivative transactions with other counterparties.

### Accounting for Derivatives

Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives primarily consist of customer-accommodation derivatives and economic hedges that 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 when they are used 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 to interest rate risk on various fixed-rate assets and liabilities.

- *Cash Flow Hedges:* We designate derivatives as cash flow hedges when they are used 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 impact earnings. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings. Our cash flow hedges use interest rate swaps that are intended to hedge the variability in interest payments on some of our variable-rate assets. 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.

- *Net Investment Hedges:* We use net investment hedges to manage the foreign currency exposure related to our net investments in foreign operations that have functional currencies other than the U.S. dollar. Changes in the fair value of net investment hedges are recorded in the translation adjustment component of AOCI, offsetting the translation gain or loss from those foreign operations. We execute net investment hedges using foreign exchange forward contracts to hedge the translation exposure of the net investment in our foreign operations.

- *Free-Standing Derivatives:* We use free-standing derivatives to hedge the risk of changes in the fair value of residential MSRs, 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

As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis for presenting qualifying derivative assets and liabilities, as well as the related fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), for instruments executed with the same counterparty where a right of setoff exists. See additional information in “Note 1—Summary of Significant Accounting Policies.”

The following table summarizes the notional and fair values of our derivative instruments on a gross basis as of June 30, 2015 and December 31, 2014, which 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. The total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and any associated cash collateral received or paid.

**Table 9.1: Derivative Assets and Liabilities at Fair Value**

| | June 30, 2015 | | | December 31, 2014 | | |
|---|---|---|---|---|---|---|
| | Notional or Contractual Amount | Derivative[1] | | Notional or Contractual Amount | Derivative[1] | |
| *(Dollars in millions)* | | Assets | Liabilities | | Assets | Liabilities |
| **Derivatives designated as accounting hedges:** | | | | | | |
| Interest rate contracts: | | | | | | |
| Fair value hedges | **$ 27,225** | **$ 470** | **$ 96** | $ 24,543 | $ 480 | $ 39 |
| Cash flow hedges | **27,050** | **355** | **25** | 24,450 | 222 | 18 |
| Total interest rate contracts | **54,275** | **825** | **121** | 48,993 | 702 | 57 |
| Foreign exchange contracts: | | | | | | |
| Cash flow hedges | **5,559** | **93** | **48** | 5,546 | 221 | 2 |
| Net investment hedges | **2,690** | **0** | **146** | 2,476 | 73 | 0 |
| Total foreign exchange contracts | **8,249** | **93** | **194** | 8,022 | 294 | 2 |
| Total derivatives designated as accounting hedges | **62,524** | **918** | **315** | 57,015 | 996 | 59 |
| **Derivatives not designated as accounting hedges:** | | | | | | |
| Interest rate contracts covering: | | | | | | |
| MSRs[2] | **1,252** | **7** | **10** | 777 | 10 | 3 |
| Customer accommodation | **28,386** | **387** | **243** | 27,646 | 413 | 251 |
| Other interest rate exposures[3] | **2,258** | **45** | **13** | 2,614 | 33 | 21 |
| Total interest rate contracts | **31,896** | **439** | **266** | 31,037 | 456 | 275 |
| Other contracts | **597** | **0** | **4** | 593 | 0 | 5 |
| Total derivatives not designated as accounting hedges | **32,493** | **439** | **270** | 31,630 | 456 | 280 |
| Total derivatives | **$ 95,017** | **$ 1,357** | **$ 585** | $ 88,645 | $ 1,452 | $ 339 |
| Less: netting adjustment[4] | | **(423)** | **(339)** | | (624) | (164) |
| Total derivative assets/liabilities | | **$ 934** | **$ 246** | | $ 828 | $ 175 |

(1) Derivative assets and liabilities include interest accruals.

(2) Includes interest rate swaps and To Be Announced (“TBA”) contracts.

(3) Other interest rate exposures include mortgage-related derivatives.

(4) Represents balance sheet netting of derivative assets and liabilities, and related receivables, payables and cash collateral. See Table 9.2 for further information.

### Offsetting of Financial Assets and Liabilities

We execute the majority of our derivative transactions and repurchase agreements under master netting arrangements. Under our existing enforceable master netting arrangements, we generally have the right to offset exposure with the same counterparty. In addition, either counterparty can generally request the net settlement of all contracts through a single payment upon default on, or termination of, any one contract. As of January 1, 2015, the Company changed its accounting principle to begin offsetting derivative assets and liabilities for purposes of balance sheet presentation where a right of setoff exists. As of June 30, 2015 and December 31, 2014, derivative contracts that are executed bilaterally with a counterparty in the OTC market and then novated to and cleared through a central clearing house are not subject to offsetting due to current uncertainty about the legal enforceability of our right of setoff with the clearinghouses.

The following table presents as of June 30, 2015 and December 31, 2014 the gross and net fair values of our derivative assets and liabilities and repurchase agreements, as well as the related offsetting amounts permitted under U.S. GAAP. The table also includes cash and non-cash collateral received or pledged associated with such arrangements. The collateral amounts shown are limited to the extent of the related net derivative fair values or outstanding balances, thus instances of over-collateralization are not shown.

**Table 9.2: Offsetting of Financial Assets and Financial Liabilities**

| | | Gross Amounts Offset in the Balance Sheet | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Gross Amounts | Financial Instruments | Cash Collateral Received | Net Amounts as Recognized | Securities Collateral Held Under Master Netting Agreements | Net Exposure |
| **As of June 30, 2015** | | | | | | |
| Derivatives assets[1] | **$ 1,357** | **$ (191)** | **$ (232)** | **$ 934** | **$ (14)** | **$ 920** |
| As of December 31, 2014 | | | | | | |
| Derivatives assets[1] | $ 1,452 | $ (101) | $ (523) | $ 828 | $ (80) | $ 748 |

| | | Gross Amounts Offset in the Balance Sheet | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Gross Amounts | Financial Instruments | Cash Collateral Pledged | Net Amounts as Recognized | Securities Collateral Pledged Under Master Netting Agreements | Net Exposure |
| **As of June 30, 2015** | | | | | | |
| Derivatives liabilities[1] | **$ 585** | **$ (191)** | **$ (148)** | **$ 246** | **$ 0** | **$ 246** |
| Repurchase agreements[2][3] | **969** | **0** | **0** | **969** | **(969)** | **0** |
| As of December 31, 2014 | | | | | | |
| Derivatives liabilities[1] | $ 339 | $ (101) | $ (63) | $ 175 | $ 0 | $ 175 |
| Repurchase agreements[2] | 869 | 0 | 0 | 869 | (869) | 0 |

(1) The gross balances include derivative assets and derivative liabilities as of June 30, 2015 totaling $536 million and $202 million, respectively, related to the centrally cleared derivative contracts. The comparable amounts as of December 31, 2014 totaled $360 million and $127 million, respectively. These contracts were not subject to offsetting as of June 30, 2015 and December 31, 2014.

(2) As of June 30, 2015 and December 31, 2014, the Company only had repurchase obligations outstanding and did not have any reverse repurchase receivables.

(3) Represents customer repurchase agreements that mature the next business day. As of June 30, 2015, we pledged collateral with a fair value of $989 million under these customer repurchase agreements, all of which were agency RMBS securities.

### Credit Risk-Related Contingency Features and Collateral

Certain of our derivatives 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 derivatives counterparties would have the right to terminate the derivative contract and close out the existing positions, or demand immediate and ongoing full overnight collateralization on derivative instruments in a net liability position. Certain of our derivatives contracts may also allow, in the event of a downgrade of our debt credit rating of any kind, our derivatives counterparties to demand additional collateralization on such derivatives instruments in a net liability position. We posted $271 million and $87 million of cash collateral as of June 30, 2015 and December 31, 2014, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post $58 million and $65 million of additional collateral as of June 30, 2015 and December 31, 2014, respectively. The fair value of derivatives instruments with credit risk-related contingent features in a net liability position was $3 million and less than $1 million as of June 30, 2015 and December 31, 2014, respectively.

### Derivatives Counterparty Credit Risk

Derivatives 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 derivatives counterparty credit risk, at any point in time, is represented by the fair value of derivatives in a gain position, or derivatives assets, assuming no recoveries of underlying collateral. To mitigate the risk of counterparty default, we enter into legally enforceable master netting agreements and maintain collateral agreements with certain derivative counterparties. We generally enter into these agreements on a bilateral basis with our counterparties; however, since June 2013 we have begun to clear eligible OTC derivatives through a central clearinghouse in accordance with the requirements of the Dodd-Frank Act. These agreements typically provide for the right to offset exposures and 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 $571 million and $695 million as of June 30, 2015 and December 31, 2014, respectively. We also received securities from derivatives counterparties with a fair value of $16 million and $91 million as of June 30, 2015 and December 31, 2014, respectively, which we have the ability to re-pledge.

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 derivatives contracts, collateral and creditworthiness of the counterparty. The cumulative counterparty credit risk valuation adjustment recorded on our consolidated balance sheets as a reduction in the derivatives asset balance was $4 million and $5 million as of June 30, 2015 and December 31, 2014, respectively. We also adjust the fair value of our derivatives liabilities to reflect the impact of our own 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 both June 30, 2015 and December 31, 2014.

### Income Statement Presentation and AOCI

The following tables summarize the impact of derivatives and the related hedged items in 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 and six months ended June 30, 2015 and 2014.

**Table 9.3: Gains and Losses on Fair Value Hedges and Free-Standing Derivatives**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| **Derivatives designated as accounting hedges:[1]** | | | | |
| Fair value interest rate contracts: | | | | |
| (Losses) gains recognized in earnings on derivatives | **$ (223)** | $ 105 | **$ (70)** | $ 136 |
| Gains (losses) recognized in earnings on hedged items | **211** | (92) | **63** | (115) |
| Net fair value hedge ineffectiveness (losses) gains | **(12)** | 13 | **(7)** | 21 |
| **Derivatives not designated as accounting hedges:[1]** | | | | |
| Interest rate contracts covering: | | | | |
| MSRs | **(9)** | 6 | **(3)** | 13 |
| Customer accommodation | **5** | 4 | **9** | 8 |
| Other interest rate exposures | **16** | 3 | **18** | 3 |
| Total interest rate contracts | **12** | 13 | **24** | 24 |
| Foreign exchange contracts | **0** | 0 | **0** | 1 |
| Other contracts | **0** | 0 | **(2)** | 1 |
| Total gains on derivatives not designated as accounting hedges | **12** | 13 | **22** | 26 |
| Net derivative gains recognized in earnings | **$ 0** | $ 26 | **$ 15** | $ 47 |

[1] Amounts are recorded in our consolidated statements of income in other non-interest income.

### *Cash Flow and Net Investment Hedges*

The table below shows the net gains (losses) related to derivatives designated as cash flow hedges and net investment hedges for the three and six months ended June 30, 2015 and 2014.

**Table 9.4: Gains and Losses on Derivatives Designated as Cash Flow Hedges and Net Investment Hedges**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| **Gains (losses) recorded in AOCI:** | | | | |
| **Cash flow hedges:** | | | | |
| Interest rate contracts | **$ (33)** | $ 101 | **$ 177** | $ 146 |
| Foreign exchange contracts | **(6)** | (6) | **(11)** | (11) |
| Subtotal | **(39)** | 95 | **166** | 135 |
| **Net investment hedges:** | | | | |
| Foreign exchange contracts | **(97)** | 0 | **(22)** | 0 |
| Net derivatives (losses) gains recognized in AOCI | **$ (136)** | $ 95 | **$ 144** | $ 135 |
| **Gains (losses) recorded in earnings:** | | | | |
| **Cash flow hedges:** | | | | |
| Gains (losses) reclassified from AOCI into earnings: | | | | |
| Interest rate contracts[1] | **$ 50** | $ 30 | **$ 97** | $ 56 |
| Foreign exchange contracts[2] | **(8)** | (6) | **(12)** | (11) |
| Subtotal | **42** | 24 | **85** | 45 |
| Gains (losses) recognized in earnings due to ineffectiveness: | | | | |
| Interest rate contracts[2] | **0** | 0 | **2** | 1 |
| Net derivative gains recognized in earnings | **$ 42** | $ 24 | **$ 87** | $ 46 |

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

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

In the next 12 months, we expect to reclassify to earnings net after-tax gains of $166 million currently recorded in AOCI as of June 30, 2015. These amounts will offset the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was approximately five years as of June 30, 2015. 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.

## NOTE 10—STOCKHOLDERS' EQUITY

### Preferred Stock

The following table summarizes the Company's preferred stock issued and outstanding as of June 30, 2015 and December 31, 2014.

**Table 10.1: Preferred Stock Issued and Outstanding**

| Series | Description | Issuance Date | Redeemable by Issuer Beginning | Per Annum Dividend Rate | Liquidation Preference per Share | Total Shares Outstanding | Carrying Value (in millions) June 30, 2015 | Carrying Value (in millions) December 31, 2014 |
|---|---|---|---|---|---|---|---|---|
| **Series B[(1)]** | 6.00% Non-Cumulative | August 20, 2012 | September 1, 2017 | 6.00% | $ 1,000 | 875,000 | **$ 853** | $ 853 |
| **Series C[(1)]** | 6.25% Non-Cumulative | June 12, 2014 | September 1, 2019 | 6.25 | 1,000 | 500,000 | **484** | 484 |
| **Series D[(1)]** | 6.70% Non-Cumulative | October 31, 2014 | December 1, 2019 | 6.70 | 1,000 | 500,000 | **485** | 485 |
| **Series E** | Fixed-to-Floating Rate Non-Cumulative | May 14, 2015 | June 1, 2020 | 5.55% through 5/31/2020; 3-mo. Libor + 380 bps thereafter | 1,000 | 1,000,000 | **988** | N/A |
| Total | | | | | | | **$ 2,810** | $ 1,822 |

(1) Ownership is held in the form of depositary shares, each representing a 1/40th interest in a share of fixed rate non-cumulative perpetual preferred stock.

### Accumulated Other Comprehensive Income

The following table presents the changes in AOCI by component for the three and six months ended June 30, 2015 and 2014.

**Table 10.2: Accumulated Other Comprehensive Income**

| | Three Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Securities Available for Sale | Securities Held to Maturity[(1)] | Cash Flow Hedges | Foreign Currency Translation Adjustments [(2)] | Other | Total |
| AOCI as of March 31, 2015 | $ 532 | $ (801) | $ 172 | $ (92) | $ (23) | $ (212) |
| Other comprehensive (loss) income before reclassifications | **(171)** | **0** | **(39)** | **35** | **0** | **(175)** |
| Amounts reclassified from AOCI into earnings | **5** | **27** | **(42)** | **0** | **0** | **(10)** |
| Net other comprehensive (loss) income | **(166)** | **27** | **(81)** | **35** | **0** | **(185)** |
| AOCI as of June 30, 2015 | **$ 366** | **$ (774)** | **$ 91** | **$ (57)** | **$ (23)** | **$ (397)** |

| | Six Months Ended June 30, 2015 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Securities Available for Sale | Securities Held to Maturity[(1)] | Cash Flow Hedges | Foreign Currency Translation Adjustments[(2)] | Other | Total |
| AOCI as of December 31, 2014 | $ 410 | $ (821) | $ 10 | $ (8) | $ (21) | $ (430) |
| Other comprehensive (loss) income before reclassifications | **(57)** | **0** | **166** | **(49)** | **(1)** | **59** |
| Amounts reclassified from AOCI into earnings | **13** | **47** | **(85)** | **0** | **(1)** | **(26)** |
| Net other comprehensive (loss) income | **(44)** | **47** | **81** | **(49)** | **(2)** | **33** |
| AOCI as of June 30, 2015 | **$ 366** | **$ (774)** | **$ 91** | **$ (57)** | **$ (23)** | **$ (397)** |

| | Three Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Securities Available for Sale | Securities Held to Maturity[1] | Cash Flow Hedges | Foreign Currency Translation Adjustments | Other | Total |
| AOCI as of March 31, 2014 | $ 250 | $ (884) | $ (91) | $ 27 | $ (12) | $ (710) |
| Other comprehensive income before reclassifications | 168 | 0 | 95 | 79 | 3 | 345 |
| Amounts reclassified from AOCI into earnings | 1 | 21 | (24) | 0 | (4) | (6) |
| Net other comprehensive income (loss) | 169 | 21 | 71 | 79 | (1) | 339 |
| AOCI as of June 30, 2014 | $ 419 | $ (863) | $ (20) | $ 106 | $ (13) | $ (371) |

| | Six Months Ended June 30, 2014 | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Securities Available for Sale | Securities Held to Maturity[1] | Cash Flow Hedges | Foreign Currency Translation Adjustments | Other | Total |
| AOCI as of December 31, 2013 | $ 106 | $ (897) | $ (110) | $ 40 | $ (11) | $ (872) |
| Other comprehensive income before reclassifications | 317 | 0 | 135 | 66 | 3 | 521 |
| Amounts reclassified from AOCI into earnings | (4) | 34 | (45) | 0 | (5) | (20) |
| Net other comprehensive income (loss) | 313 | 34 | 90 | 66 | (2) | 501 |
| AOCI as of June 30, 2014 | $ 419 | $ (863) | $ (20) | $ 106 | $ (13) | $ (371) |

(1) The amortization of unrealized holding gains or losses reported in AOCI for securities held to maturity will be offset by the amortization of the premium or discount created at the date of transfer from the securities available for sale to securities held to maturity, which occurred at fair value. These unrealized gains or losses will be recorded over the remaining life of the security with no impact on future net income.

(2) Includes the impact from hedging instruments designated as net investment hedges.

The following table presents the impacts on net income of amounts reclassified from each component of AOCI for the three and six months ended June 30, 2015 and 2014.

**Table 10.3: Reclassifications from AOCI**

| | | Amount Reclassified from AOCI | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| **AOCI Components** | **Affected Income Statement Line Item** | **2015** | **2014** | **2015** | **2014** |
| Securities available for sale: | | | | | |
| | Non-interest income | **$ (1)** | $ (1) | **$ 1** | $ 12 |
| | Non-interest income - OTTI | **(7)** | (1) | **(22)** | (6) |
| | (Loss) income from continuing operations before income taxes | **(8)** | (2) | **(21)** | 6 |
| | Income tax (benefit) provision | **(3)** | (1) | **(8)** | 2 |
| | Net (loss) income | **(5)** | (1) | **(13)** | 4 |
| Securities held to maturity:[1] | | | | | |
| | Non-interest income | **(40)** | (33) | **(73)** | (61) |
| | Income tax benefit | **(13)** | (12) | **(26)** | (27) |
| | Net loss | **(27)** | (21) | **(47)** | (34) |
| Cash flow hedges: | | | | | |
| Interest rate contracts: | Interest income | **78** | 48 | **153** | 90 |
| Foreign exchange contracts: | Non-interest income | **(12)** | (10) | **(19)** | (18) |
| | Income from continuing operations before income taxes | **66** | 38 | **134** | 72 |
| | Income tax provision | **24** | 14 | **49** | 27 |
| | Net income | **42** | 24 | **85** | 45 |

| *(Dollars in millions)* | | Amount Reclassified from AOCI | | | |
|---|---|---|---|---|---|
| | | Three Months Ended June 30, | | Six Months Ended June 30, | |
| **AOCI Components** | **Affected Income Statement Line Item** | **2015** | **2014** | **2015** | **2014** |
| Other: | | | | | |
| | Various (pension and other) | **1** | 7 | **2** | 8 |
| | Income tax provision | **1** | 3 | **1** | 3 |
| | Net income | **0** | 4 | **1** | 5 |
| Total reclassifications | | **$ 10** | $ 6 | **$ 26** | $ 20 |

(1) The amortization of unrealized holding gains or losses reported in AOCI for securities held to maturity will be offset by the amortization of the premium or discount created from the transfer into securities held to maturity, which occurred at fair value.

The table below summarizes other comprehensive income activity and the related tax impact for the three and six months ended June 30, 2015 and 2014.

**Table 10.4: Other Comprehensive Income (Loss)**

| *(Dollars in millions)* | Three Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Before Tax | Provision (Benefit) | After Tax | Before Tax | Provision (Benefit) | After Tax |
| **Other comprehensive income (loss):** | | | | | | |
| Net unrealized (losses) gains on securities available for sale | **$ (259)** | **$ (93)** | **$ (166)** | $ 269 | $ 100 | $ 169 |
| Net changes in securities held to maturity | **40** | **13** | **27** | 33 | 12 | 21 |
| Net unrealized (losses) gains on cash flow hedges | **(129)** | **(48)** | **(81)** | 114 | 43 | 71 |
| Foreign currency translation adjustments[1] | **(21)** | **(56)** | **35** | 79 | 0 | 79 |
| Other | **0** | **0** | **0** | (3) | (2) | (1) |
| Other comprehensive (loss) income | **$ (369)** | **$ (184)** | **$ (185)** | $ 492 | $ 153 | $ 339 |

| *(Dollars in millions)* | Six Months Ended June 30, | | | | | |
|---|---|---|---|---|---|---|
| | 2015 | | | 2014 | | |
| | Before Tax | Provision (Benefit) | After Tax | Before Tax | Provision (Benefit) | After Tax |
| **Other comprehensive income (loss):** | | | | | | |
| Net unrealized (losses) gains on securities available for sale | **$ (69)** | **$ (25)** | **$ (44)** | $ 498 | $ 185 | $ 313 |
| Net changes in securities held to maturity | **73** | **26** | **47** | 61 | 27 | 34 |
| Net unrealized gains on cash flow hedges | **129** | **48** | **81** | 144 | 54 | 90 |
| Foreign currency translation adjustments[1] | **(62)** | **(13)** | **(49)** | 66 | 0 | 66 |
| Other | **(4)** | **(2)** | **(2)** | (4) | (2) | (2) |
| Other comprehensive income | **$ 67** | **$ 34** | **$ 33** | $ 765 | $ 264 | $ 501 |

(1) Includes the impact from hedging instruments designated as net investment hedges.

## NOTE 11—EARNINGS PER COMMON SHARE

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

**Table 11.1: Computation of Basic and Diluted Earnings per Common Share**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars and shares in millions, except per share data)* | **2015** | **2014** | **2015** | **2014** |
| **Basic earnings** | | | | |
| Income from continuing operations, net of tax | **$ 852** | $ 1,204 | **$ 1,986** | $ 2,328 |
| Income (loss) from discontinued operations, net of tax | **11** | (10) | **30** | 20 |
| Net income | **863** | 1,194 | **2,016** | 2,348 |
| Dividends and undistributed earnings allocated to participating securities[1] | **(4)** | (4) | **(10)** | (9) |
| Preferred stock dividends | **(29)** | (13) | **(61)** | (26) |
| Net income available to common stockholders | **$ 830** | $ 1,177 | **$ 1,945** | $ 2,313 |
| | | | | |
| Net income from continuing operations per share | **$ 1.50** | $ 2.09 | **$ 3.49** | $ 4.03 |
| Income (loss) from discontinued operations per share | **0.02** | (0.02) | **0.06** | 0.03 |
| Net income per share | **$ 1.52** | $ 2.07 | **$ 3.55** | $ 4.06 |
| Total weighted-average basic shares outstanding | **545.6** | 567.5 | **548.0** | 569.2 |
| | | | | |
| **Diluted earnings[2]** | | | | |
| Net income available to common stockholders | **$ 830** | $ 1,177 | **$ 1,945** | $ 2,313 |
| Net income from continuing operations per share | **$ 1.48** | $ 2.06 | **$ 3.45** | $ 3.97 |
| Income (loss) from discontinued operations per share | **0.02** | (0.02) | **0.06** | 0.03 |
| Net income per share | **$ 1.50** | $ 2.04 | **$ 3.51** | $ 4.00 |
| | | | | |
| Total weighted-average basic shares outstanding | **545.6** | 567.5 | **548.0** | 569.2 |
| Effect of dilutive securities: | | | | |
| Stock options | **2.8** | 2.7 | **2.7** | 2.6 |
| Other contingently issuable shares | **1.1** | 1.6 | **1.3** | 1.5 |
| Warrants[3] | **2.5** | 5.8 | **2.7** | 5.6 |
| Total effect of dilutive securities | **6.4** | 10.1 | **6.7** | 9.7 |
| Total weighted-average diluted shares outstanding | **552.0** | 577.6 | **554.7** | 578.9 |

(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 were 1.7 million shares related to options with exercise prices ranging from $74.96 to $88.81, and 1.9 million shares related to options with exercise prices ranging from $70.96 to $88.81 for the three and six months ended June 30, 2015, respectively, and 2.8 million shares related to options with exercise prices ranging from $70.96 to $88.81, and 3.7 million shares related to options with exercise prices ranging from $70.96 to $88.81 for the three and six months ended June 30, 2014, respectively, because their inclusion would be anti-dilutive.

(3) Represents warrants issued as part of the U.S. Department of Treasury's Troubled Assets Relief Program ("TARP"). As of June 30, 2015, there were 4.4 million warrants to purchase common stock outstanding, which represents approximately one-third of the warrants issued in the initial offering.

## NOTE 12—FAIR VALUE MEASUREMENT

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 the markets in which the assets or liabilities trade and whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. The fair value measurement of a financial asset or liability is assigned 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: | Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities. |
| Level 2: | Valuation is based on observable market-based inputs, other than quoted prices in active markets for identical 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. |
| Level 3: | Valuation is generated from techniques that use significant assumptions not observable in the market. Valuation techniques include pricing models, discounted cash flow methodologies or similar techniques. |

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 in earnings. We have not made any material fair value option elections as of or for the periods disclosed herein.

**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 of our trading and investing functions, including our Corporate Valuations Group (“CVG”), Fair Value Committee (“FVC”) and Model Validation Group (“MVG”), 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 by the FVC to a more senior committee called the Valuations Advisory Committee (“VAC”) for resolution. The VAC is chaired by the Chief Financial Officer and includes other members of senior management. The VAC is only required to convene to review escalated valuation disputes and may meet for a general update on the valuation process.

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

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

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

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

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of June 30, 2015 and December 31, 2014:

**Table 12.1: Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| | June 30, 2015 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | |
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 4,438 | $ 0 | $ 0 | $ 4,438 |
| Corporate debt securities guaranteed by U.S. government agencies | 0 | 330 | 91 | 421 |
| RMBS | 0 | 26,487 | 459 | 26,946 |
| CMBS | 0 | 5,093 | 170 | 5,263 |
| Other ABS | 0 | 1,720 | 7 | 1,727 |
| Other securities | 114 | 209 | 18 | 341 |
| Total securities available for sale | 4,552 | 33,839 | 745 | 39,136 |
| Other assets: | | | | |
| Consumer MSRs | 0 | 0 | 65 | 65 |
| Derivative assets[1][2] | 4 | 1,292 | 61 | 1,357 |
| Retained interests in securitizations | 0 | 0 | 220 | 220 |
| **Total assets** | $ 4,556 | $ 35,131 | $ 1,091 | $ 40,778 |
| **Liabilities:** | | | | |
| Other liabilities: | | | | |
| Derivative liabilities[1][2] | $ 4 | $ 554 | $ 27 | $ 585 |
| **Total liabilities** | $ 4 | $ 554 | $ 27 | $ 585 |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Fair Value Measurements Using | | | |
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Securities available for sale: | | | | |
| U.S. Treasury securities | $ 4,117 | $ 1 | $ 0 | $ 4,118 |
| Corporate debt securities guaranteed by U.S. government agencies | 0 | 467 | 333 | 800 |
| RMBS | 0 | 24,820 | 561 | 25,381 |
| CMBS | 0 | 5,291 | 228 | 5,519 |
| Other ABS | 0 | 2,597 | 65 | 2,662 |
| Other securities | 111 | 899 | 18 | 1,028 |
| Total securities available for sale | 4,228 | 34,075 | 1,205 | 39,508 |
| Other assets: | | | | |
| Consumer MSRs | 0 | 0 | 53 | 53 |
| Derivative assets[(1)(2)] | 4 | 1,382 | 66 | 1,452 |
| Retained interests in securitizations | 0 | 0 | 221 | 221 |
| **Total assets** | $ 4,232 | $ 35,457 | $ 1,545 | $ 41,234 |
| **Liabilities:** | | | | |
| Other liabilities: | | | | |
| Derivative liabilities[(1)(2)] | $ 3 | $ 293 | $ 43 | $ 339 |
| **Total liabilities** | $ 3 | $ 293 | $ 43 | $ 339 |

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

The balances represent gross derivative amounts and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty. The net derivative assets were $934 million and $828 million, and the net derivative liabilities were $246 million and $175 million as of June 30, 2015 and December 31, 2014, respectively. See "Note 9—Derivative Instruments and Hedging Activities" for further information.

(2) Does not reflect $3 million and $4 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of June 30, 2015 and December 31, 2014, respectively. Non-performance risk is reflected in other assets and liabilities on the consolidated balance sheets and offset through non-interest income in the consolidated statements of income.

The determination of the classification of financial instruments in 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 unobservable inputs to the instruments' fair value measurement in its entirety. If unobservable 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 three and six months ended June 30, 2015 we had minimal movements between Levels 1 and 2.

### Level 3 Recurring Fair Value Rollforward

The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and six months ended June 30, 2015 and 2014. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.

**Table 12.2: Level 3 Recurring Fair Value Rollforward**

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2015 | | | | | | | | | | |
| | | Total Gains (Losses) (Realized/Unrealized) | | | | | | | | | |
| *(Dollars in millions)* | Balance, April 1, 2015 | Included in Net Income[1] | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfers Into Level 3[2] | Transfers Out of Level 3[2] | Balance, June 30, 2015 | Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2015[3] |
| **Assets:** | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Corporate debt securities guaranteed by U.S. government agencies | **$ 172** | **$ 1** | **$ 0** | **$ 0** | **$ (80)** | **$ 0** | **$ (2)** | **$ 0** | **$ 0** | **$ 91** | **$ 0** |
| RMBS | **555** | **11** | **(9)** | **0** | **0** | **0** | **(14)** | **107** | **(191)** | **459** | **11** |
| CMBS | **174** | **0** | **0** | **86** | **0** | **0** | **(16)** | **0** | **(74)** | **170** | **0** |
| Other ABS | **7** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **7** | **0** |
| Other securities | **18** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **18** | **0** |
| Total securities available for sale | **926** | **12** | **(9)** | **86** | **(80)** | **0** | **(32)** | **107** | **(265)** | **745** | **11** |
| Other assets: | | | | | | | | | | | |
| Consumer MSRs | **53** | **7** | **0** | **0** | **0** | **6** | **(1)** | **0** | **0** | **65** | **7** |
| Derivative assets[4] | **73** | **(10)** | **0** | **0** | **0** | **18** | **(16)** | **0** | **(4)** | **61** | **(10)** |
| Retained interest in securitizations | **223** | **(3)** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **220** | **(3)** |
| **Liabilities:** | | | | | | | | | | | |
| Other liabilities: | | | | | | | | | | | |
| Derivative liabilities[4] | **$ (48)** | **$ 9** | **$ 0** | **$ 0** | **$ 0** | **$ (3)** | **$ 12** | **$ 0** | **$ 3** | **$ (27)** | **$ 9** |

| | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Three Months Ended June 30, 2014 | | | | | | | | | | |
| | | Total Gains (Losses) (Realized/Unrealized) | | | | | | | | | |
| *(Dollars in millions)* | Balance, April 1, 2014 | Included in Net Income[1] | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfers Into Level 3[2] | Transfers Out of Level 3[2] | Balance, June 30, 2014 | Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2014[3] |
| **Assets:** | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Corporate debt securities guaranteed by U.S. government agencies | $ 752 | $ 0 | $ 5 | $ 0 | $ 0 | $ 0 | $ (18) | $ 0 | $ 0 | $ 739 | $ 0 |
| RMBS | 1,727 | 17 | 8 | 94 | 0 | 0 | (98) | 63 | (975) | 836 | 17 |
| CMBS | 495 | 0 | 3 | 0 | 0 | 0 | (19) | 28 | (58) | 449 | 0 |
| Other ABS | 226 | 1 | 8 | 0 | 0 | 0 | (1) | 0 | (59) | 175 | 1 |
| Other securities | 17 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 20 | 0 |
| Total securities available for sale | 3,217 | 18 | 24 | 94 | 0 | 0 | (136) | 94 | (1,092) | 2,219 | 18 |
| Other assets: | | | | | | | | | | | |
| Consumer MSRs | 61 | (6) | 0 | 0 | 0 | 3 | (1) | 0 | 0 | 57 | (6) |
| Derivative assets[4] | 48 | 3 | 0 | 0 | 0 | 5 | (3) | 0 | (3) | 50 | 3 |
| Retained interest in securitizations | 197 | (2) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 195 | (2) |
| **Liabilities:** | | | | | | | | | | | |
| Other liabilities: | | | | | | | | | | | |
| Derivative liabilities[4] | $ (36) | $ (2) | $ 0 | $ 0 | $ 0 | $ (3) | $ 3 | $ 0 | $ 1 | $ (37) | $ (2) |

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| (Dollars in millions) | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) — Six Months Ended June 30, 2015 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Gains (Losses) (Realized/Unrealized) | | | | | | | | | |
| | Balance, January 1, 2015 | Included in Net Income[1] | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfers Into Level 3[2] | Transfers Out of Level 3[2] | Balance, June 30, 2015 | Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2015[3] |
| **Assets:** | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Corporate debt securities guaranteed by U.S. government agencies | **$ 333** | **$ (1)** | **$ 5** | **$ 0** | **$ (148)** | **$ 0** | **$ (10)** | **$ 0** | **$ (88)** | **$ 91** | **$ 0** |
| RMBS | **561** | **19** | **(1)** | **0** | **0** | **0** | **(27)** | **192** | **(285)** | **459** | **20** |
| CMBS | **228** | **0** | **1** | **86** | **0** | **0** | **(37)** | **0** | **(108)** | **170** | **0** |
| Other ABS | **65** | **1** | **(2)** | **0** | **(20)** | **0** | **0** | **0** | **(37)** | **7** | **0** |
| Other securities | **18** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **18** | **0** |
| Total securities available for sale | **1,205** | **19** | **3** | **86** | **(168)** | **0** | **(74)** | **192** | **(518)** | **745** | **20** |
| Other assets: | | | | | | | | | | | |
| Consumer MSRs | **53** | **4** | **0** | **0** | **0** | **10** | **(2)** | **0** | **0** | **65** | **4** |
| Derivative assets[4] | **66** | **1** | **0** | **0** | **0** | **27** | **(28)** | **0** | **(5)** | **61** | **1** |
| Retained interest in securitizations | **221** | **(1)** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **220** | **(1)** |
| **Liabilities:** | | | | | | | | | | | |
| Other liabilities: | | | | | | | | | | | |
| Derivative liabilities[4] | **$ (43)** | **$ (1)** | **$ 0** | **$ 0** | **$ 0** | **$ (10)** | **$ 24** | **$ 0** | **$ 3** | **$ (27)** | **$ (1)** |

| (Dollars in millions) | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) — Six Months Ended June 30, 2014 | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | Total Gains (Losses) (Realized/Unrealized) | | | | | | | | | |
| | Balance, January 1, 2014 | Included in Net Income[1] | Included in OCI | Purchases | Sales | Issuances | Settlements | Transfers Into Level 3[2] | Transfers Out of Level 3[2] | Balance, June 30, 2014 | Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of June 30, 2014[3] |
| **Assets:** | | | | | | | | | | | |
| Securities available for sale: | | | | | | | | | | | |
| Corporate debt securities guaranteed by U.S. government agencies | $ 927 | $ 0 | $ 15 | $ 0 | $ (112) | $ 0 | $ (39) | $ 64 | $ (116) | $ 739 | $ 0 |
| RMBS | 1,304 | 37 | 36 | 980 | 0 | 0 | (132) | 120 | (1,509) | 836 | 37 |
| CMBS | 739 | 0 | 5 | 34 | 0 | 0 | (30) | 66 | (365) | 449 | 0 |
| Other ABS | 343 | 3 | 10 | 0 | 0 | 0 | (2) | 43 | (222) | 175 | 3 |
| Other securities | 17 | 0 | 0 | 0 | 0 | 0 | 0 | 3 | 0 | 20 | 0 |
| Total securities available for sale | 3,330 | 40 | 66 | 1,014 | (112) | 0 | (203) | 296 | (2,212) | 2,219 | 40 |
| Other assets: | | | | | | | | | | | |
| Consumer MSRs | 69 | (17) | 0 | 0 | 0 | 7 | (2) | 0 | 0 | 57 | (17) |
| Derivative assets[4] | 50 | 3 | 0 | 0 | 0 | 7 | (6) | 0 | (4) | 50 | 3 |
| Retained interest in securitization | 199 | (4) | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 195 | (4) |
| **Liabilities:** | | | | | | | | | | | |
| Other liabilities: | | | | | | | | | | | |
| Derivative liabilities[4] | $ (38) | $ (4) | $ 0 | $ 0 | $ 0 | $ (4) | $ 8 | $ 0 | $ 1 | $ (37) | $ (4) |

(1) Gains (losses) related to Level 3 Consumer MSRs, derivative assets and derivative liabilities, and retained interests in securitizations are reported in other non-interest income, which is a component of non-interest income, in our consolidated statements of income.

(2) During the three and six months ended June 30, 2015 and 2014, the transfers into Level 3 were primarily driven by less consistency among vendor pricing on individual securities, while the transfers out of Level 3 were primarily driven by greater consistency among multiple pricing sources.

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

(4) All Level 3 derivative assets and liabilities are presented on a gross basis and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty.

### 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.

### Techniques and Inputs for Level 3 Fair Value Measurements

The following table presents the significant unobservable inputs relied upon to determine the fair values of our Level 3 financial instruments on a recurring basis. 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 securities available for sale presented below 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.

**Table 12.3: Quantitative Information about Level 3 Fair Value Measurements**

| | Quantitative Information about Level 3 Fair Value Measurements | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Fair Value at June 30, 2015** | **Significant Valuation Techniques** | **Significant Unobservable Inputs** | **Range** | **Weighted Average** |
| **Assets:** | | | | | |
| Securities available for sale: | | | | | |
| RMBS | **$ 459** | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate<br>Default rate<br>Loss severity | **1-18%<br>0-20%<br>0-16%<br>0-85%** | **5%<br>4%<br>5%<br>55%** |
| CMBS | **170** | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate | **1-3%<br>0-100%** | **2%<br>5%** |
| Other ABS | **7** | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate<br>Default rate<br>Loss severity | **2%<br>0%<br>1%<br>30%** | **2%<br>0%<br>1%<br>30%** |
| U.S. government guaranteed debt and other securities | **109** | Discounted cash flows (3rd party pricing) | Yield | **1-4%** | **3%** |
| Other assets: | | | | | |
| Consumer MSRs | **65** | Discounted cash flows | Total prepayment rate<br>Discount rate<br>Option-adjusted spread rate<br>Servicing cost ($ per loan) | **11-18%<br>11%<br>435-1500 bps<br>$93-$209** | **15%<br>11%<br>478 bps<br>$100** |
| Derivative assets(1) | **61** | Discounted cash flows | Swap rates | **2-3%** | **3%** |
| Retained interests in securitization(2) | **220** | Discounted cash flows | Life of receivables (months) Constant prepayment rate<br>Discount rate<br>Default rate<br>Loss severity | **22-69<br>1-15%<br>4-8%<br>2-7%<br>22-100%** | **N/A** |
| **Liabilities:** | | | | | |
| Derivative liabilities(1) | **$ 27** | Discounted cash flows | Swap rates | **2-3%** | **3%** |

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| | Quantitative Information about Level 3 Fair Value Measurements | | | | | |
|---|---|---|---|---|---|---|
| *(Dollars in millions)* | Fair Value at December 31, 2014 | | Significant Valuation Techniques | Significant Unobservable Inputs | Range | Weighted Average |
| **Assets:** | | | | | | |
| Securities available for sale: | | | | | | |
| RMBS | $ | 561 | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate<br>Default rate<br>Loss severity | 0-18%<br>0-23%<br>0-15%<br>0-85% | 6%<br>4%<br>5%<br>55% |
| CMBS | | 228 | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate | 1-4%<br>0-100% | 1%<br>5% |
| Other ABS | | 65 | Discounted cash flows (3rd party pricing) | Yield<br>Constant prepayment rate<br>Default rate<br>Loss severity | 2-7%<br>0-3%<br>1-10%<br>30-88% | 5%<br>2%<br>7%<br>71% |
| U.S. government guaranteed debt and other securities | | 351 | Discounted cash flows (3rd party pricing) | Yield | 1-4% | 3% |
| Other assets: | | | | | | |
| Consumer MSRs | | 53 | Discounted cash flows | Total prepayment rate<br>Discount rate<br>Option-adjusted spread rate<br>Servicing cost ($ per loan) | 12-27%<br>12%<br>435-1,500 bps<br>$93-$209 | 18%<br>12%<br>478 bps<br>$101 |
| Derivative assets[1] | | 66 | Discounted cash flows | Swap rates | 2-3% | 2% |
| Retained interests in securitization[2] | | 221 | Discounted cash flows | Life of receivables (months) Constant prepayment rate<br>Discount rate<br>Default rate<br>Loss severity | 25-72<br>2-13%<br>4-9%<br>2-8%<br>19-95% | N/A |
| **Liabilities:** | | | | | | |
| Derivative liabilities[1] | $ | 43 | Discounted cash flows | Swap rates | 2-3% | 2% |

(1) All Level 3 derivative assets and liabilities are presented on a gross basis and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty.

(2) Due to the nature of the various mortgage securitization structures in which we have retained interests, it is not meaningful to present a consolidated weighted average for the significant unobservable inputs.

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

We are required to measure and recognize certain other assets at fair value on a nonrecurring basis on the consolidated balance sheets. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, from the application of lower of cost or market accounting or when we evaluate for impairment). The following table presents the carrying amount of the assets measured at fair value on a nonrecurring basis and still held as of June 30, 2015 and December 31, 2014, and for which a nonrecurring fair value measurement was recorded during the six and twelve months then ended:

**Table 12.4: Nonrecurring Fair Value Measurements Related to Assets Still Held at Period End**

| | June 30, 2015 | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | Estimated Fair Value Hierarchy | | | | | | | |
| *(Dollars in millions)* | Level 1 | | Level 2 | | Level 3 | | Total | |
| **Assets:** | | | | | | | | |
| Loans held for investment | **$** | **0** | **$** | **0** | **$** | **158** | **$** | **158** |
| Loans held for sale | | **0** | | **156** | | **0** | | **156** |
| Other assets[1] | | **0** | | **0** | | **71** | | **71** |
| **Total** | **$** | **0** | **$** | **156** | **$** | **229** | **$** | **385** |

| | December 31, 2014 | | | |
|---|---|---|---|---|
| | Estimated Fair Value Hierarchy | | | |
| *(Dollars in millions)* | Level 1 | Level 2 | Level 3 | Total |
| **Assets:** | | | | |
| Loans held for investment | $ 0 | $ 0 | $ 121 | $ 121 |
| Loans held for sale | 0 | 34 | 0 | 34 |
| Other assets[1] | 0 | 0 | 65 | 65 |
| **Total** | $ 0 | $ 34 | $ 186 | $ 220 |

(1) Includes foreclosed property and repossessed assets of $39 million and long-lived assets held for sale of $32 million as of June 30, 2015, compared to foreclosed property and repossessed assets of $60 million and long-lived assets held for sale of $5 million as of December 31, 2014.

In the above table, loans held for investment primarily include nonperforming loans for which specific reserves or charge-offs have been recognized. These loans are classified as Level 3 as they are valued based in part on the estimated fair value of the underlying collateral and the non-recoverable rate, which is considered to be a significant unobservable input. Collateral fair value sources include the appraisal value obtained from independent appraisers, broker pricing opinions, or other available market information. The non-recoverable rate ranged from 0% to 73%, with a weighted average of 35%, and from 0% to 74%, with a weighted average of 30%, as of June 30, 2015 and December 31, 2014, respectively. The fair value of the other assets classified as Level 3 is determined based on appraisal value or listing price which involves significant judgment; the significant unobservable inputs and related quantitative information are not meaningful to disclose as they vary significantly across properties and collateral.

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 June 30, 2015 and 2014:

**Table 12.5: Nonrecurring Fair Value Measurements Included in Earnings Related to Assets Still Held at Period End**

| | Total Gains (Losses) | |
|---|---|---|
| | Six Months Ended June 30, | |
| *(Dollars in millions)* | 2015 | 2014 |
| **Assets:** | | |
| Loans held for investment | **$ (48)** | $ (23) |
| Loans held for sale | **(3)** | 0 |
| Other assets[1] | **(30)** | (5) |
| **Total** | **$ (81)** | $ (28) |

(1) Includes losses related to foreclosed property, repossessed assets and long-lived assets.

### Fair Value of Financial Instruments

The following table presents the fair value of financial instruments, whether recognized or not on the consolidated balance sheets at fair value, as of June 30, 2015 and December 31, 2014:

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**Table 12.6: Fair Value of Financial Instruments**

| | June 30, 2015 | | Estimated Fair Value Hierarchy | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | $ 7,156 | $ 7,156 | $ 7,156 | $ 0 | $ 0 |
| Restricted cash for securitization investors | 253 | 253 | 253 | 0 | 0 |
| Securities available for sale | 39,136 | 39,136 | 4,552 | 33,839 | 745 |
| Securities held to maturity | 23,668 | 24,511 | 199 | 24,099 | 213 |
| Net loans held for investment | 205,029 | 207,984 | 0 | 0 | 207,984 |
| Loans held for sale | 1,066 | 1,105 | 0 | 1,105 | 0 |
| Interest receivable[1] | 1,056 | 1,056 | 0 | 1,056 | 0 |
| Derivative assets[1][2] | 1,357 | 1,357 | 4 | 1,292 | 61 |
| Retained interests in securitizations | 220 | 220 | 0 | 0 | 220 |
| **Financial liabilities:** | | | | | |
| Non-interest bearing deposits | $ 25,123 | $ 25,123 | $ 25,123 | $ 0 | $ 0 |
| Interest-bearing deposits | 183,657 | 176,766 | 0 | 10,883 | 165,883 |
| Securitized debt obligations | 13,785 | 13,883 | 0 | 13,883 | 0 |
| Senior and subordinated notes | 19,987 | 20,240 | 0 | 20,240 | 0 |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 1,888 | 1,888 | 1,888 | 0 | 0 |
| Other borrowings | 10,106 | 10,127 | 0 | 10,127 | 0 |
| Interest payable[1] | 262 | 262 | 0 | 262 | 0 |
| Derivative liabilities[1][2] | 585 | 585 | 4 | 554 | 27 |

| | December 31, 2014 | | Estimated Fair Value Hierarchy | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Carrying Amount | Estimated Fair Value | Level 1 | Level 2 | Level 3 |
| **Financial assets:** | | | | | |
| Cash and cash equivalents | $ 7,242 | $ 7,242 | $ 7,242 | $ 0 | $ 0 |
| Restricted cash for securitization investors | 234 | 234 | 234 | 0 | 0 |
| Securities available for sale | 39,508 | 39,508 | 4,228 | 34,075 | 1,205 |
| Securities held to maturity | 22,500 | 23,634 | 0 | 23,503 | 131 |
| Net loans held for investment | 203,933 | 207,104 | 0 | 0 | 207,104 |
| Loans held for sale | 626 | 650 | 0 | 650 | 0 |
| Interest receivable[1] | 1,079 | 1,079 | 0 | 1,079 | 0 |
| Derivatives assets[1][2] | 1,452 | 1,452 | 4 | 1,382 | 66 |
| Retained interests in securitizations | 221 | 221 | 0 | 0 | 221 |
| **Financial liabilities:** | | | | | |
| Non-interest bearing deposits | $ 25,081 | $ 25,081 | $ 25,081 | $ 0 | $ 0 |
| Interest-bearing deposits | 180,467 | 174,074 | 0 | 11,668 | 162,406 |
| Securitized debt obligations | 11,624 | 11,745 | 0 | 11,745 | 0 |
| Senior and subordinated notes | 18,684 | 19,083 | 0 | 19,083 | 0 |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 880 | 880 | 880 | 0 | 0 |
| Other borrowings | 17,269 | 17,275 | 0 | 17,275 | 0 |
| Interest payable[1] | 254 | 254 | 0 | 254 | 0 |
| Derivatives liabilities[1][2] | 339 | 339 | 3 | 293 | 43 |

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

[2] The balances represent gross derivative amounts and are not reduced by the impact of legally enforceable master netting agreements that allow us to net

positive and negative positions and cash collateral held or placed with the same counterparty. See additional information in “Note 9—Derivative Instruments and Hedging Activities.”

**Financial Assets and Liabilities**

The following describes the valuation techniques used in estimating the fair value of our financial assets and liabilities as of June 30, 2015 and December 31, 2014. We applied the fair value provisions to the financial instruments not recognized on the consolidated balance sheets at fair value, which include securities held to maturity, loans held for investment, loans held for sale, interest receivable, interest-bearing deposits, securitized debt obligations, other borrowings and senior and subordinated notes. 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 for 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 amount of restricted cash for securitization investors approximates the fair value due to its relatively short-term nature.

***Investment Securities***

Quoted prices in active markets are used to measure the fair value of U.S. Treasury debt obligations. For the majority of securities in other investment categories, we utilize multiple third-party pricing services to obtain fair value measurements. 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 measurements for the various types of securities.

Certain securities are classified as Level 2 and 3, the majority of which are RMBS and CMBS. 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 pricing models 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 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.

The significant unobservable inputs used in the fair value measurement of our RMBS, CMBS and other ABS include yield, prepayment rate, default rate and loss severity in the event of default. Significant increases or 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.

***Net Loans Held For Investment***

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. The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans are estimated using a discounted cash flow method, which is a form of the income approach. Discount rates are 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 excludes any value related to customer account relationships. For loans held for investment that are recorded at fair value on our consolidated balance sheets and are measured on a nonrecurring basis, the fair value is determined using appraisal values that are obtained from independent appraisers, broker pricing opinions or other available market information, adjusted for the estimated costs to transact the sale.

Due to the use of significant unobservable inputs, loans held for investment are classified as Level 3 under the fair value hierarchy. Fair value adjustments for individually impaired collateralized loans held for investment are recorded in provision for credit losses in the consolidated statements of income.

***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. We originate loans with the intent to sell them. Certain commercial mortgage loans are sold to government-sponsored enterprises as part of a delegated underwriting and servicing ("DUS") program. For DUS commercial mortgage loans, the fair value is estimated primarily using contractual prices and other observable market-based inputs. For residential mortgage loans classified as held for sale, the fair value is estimated using observable market prices for loans with similar characteristics as the primary component, with the secondary component derived from typical securitization activities and market conditions. Credit card loans held for sale are valued based on other observable market-based inputs. These assets are therefore classified as Level 2. Fair value adjustments to loans held for sale are recorded in other non-interest income in our consolidated statements of income.

***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 OTC derivatives to manage our interest rate and foreign currency risk exposure. Quoted market prices are available and used to value our exchange-traded derivatives, which we classify as Level 1. However, predominantly 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. 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. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. 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. These derivatives are included in other assets or other liabilities on the consolidated balance sheets.

***Mortgage Servicing Rights***

We record consumer MSRs at fair value on a recurring basis, while commercial MSRs are subsequently measured at amortized cost with impairment recognized as a reduction in other non-interest income. 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 we believe other market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate/option-adjusted spreads, cost to service, contractual servicing fee income, ancillary income and late fees. Fair value measurements of MSRs use significant unobservable inputs and, accordingly, are classified as Level 3. In the event we enter into an agreement with a third party to sell the MSRs, the valuation is based on the agreed upon sale price which is considered to be the exit price and the MSRs are classified as Level 2.

***Retained Interests in Securitizations***

We have retained interests in various mortgage securitizations from previous acquisitions. Our retained interest includes rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by a trust. We record our interest in these deals at fair value using market indications and valuation models to calculate the present value of future income. The models incorporate various assumptions that market participants use in estimating future income including weighted-average life, constant prepayment rate, discount rate, default rate and severity.

***Other Assets***

Included in other assets are foreclosed property, other repossessed assets and long-lived assets held for sale. Foreclosed property, other repossessed assets and long-lived assets held for sale are carried at the lower of the carrying amount or fair value less costs to sell. The fair value is determined based on the appraisal value or listing price of the property or collateral provided by independent appraisers, and is adjusted for the estimated costs to transact the sale. Due to the use of significant unobservable inputs, these assets are classified as Level 3 under the fair value hierarchy. Fair value adjustments for these assets are recorded in other non-interest expense in the consolidated statements of income.

***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 is 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 measurements 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. 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 services utilize pricing models that incorporate 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 is determined based on discounted expected cash flows using discount rates consistent with current market rates for FHLB advances with similar remaining terms.

***Interest Payable***

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.

## NOTE 13—BUSINESS SEGMENTS

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

**Basis of Presentation**

We report the results of each of our business segments on a continuing operations basis. See “Note 2—Discontinued Operations” for a discussion of discontinued operations. The results of our individual businesses reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources.

**Business Segment Reporting Methodology**

The results of our business segments are intended to reflect each segment as if it were a stand-alone business. Our internal management and reporting process used to derive our segment results 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. 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. Due to the integrated nature of our business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. We regularly assess the assumptions, methodologies and reporting classifications used for segment reporting, which may result in the implementation of refinements or changes in future periods. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 19—Business Segments” in our 2014 Form 10-K.

**Segment Results and Reconciliation**

We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. The following tables present our business segment results for the three and six months ended June 30, 2015 and 2014, selected balance sheet data as of June 30, 2015 and 2014, 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.

**Table 13.1: Segment Results and Reconciliation**

| | Three Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Credit Card** | **Consumer Banking** | **Commercial Banking** | **Other** | **Consolidated Total** |
| Net interest income (expense) | **$ 2,633** | **$ 1,444** | **$ 466** | **$ (6)** | **$ 4,537** |
| Non-interest income | **845** | **196** | **123** | **(29)** | **1,135** |
| Total net revenue (loss) | **3,478** | **1,640** | **589** | **(35)** | **5,672** |
| Provision for credit losses | **895** | **185** | **49** | **0** | **1,129** |
| Non-interest expense: | | | | | |
| Amortization of intangibles: | | | | | |
| PCCR intangible amortization | **80** | **0** | **0** | **0** | **80** |
| Core deposit intangible amortization | **0** | **21** | **4** | **0** | **25** |
| Total PCCR and core deposit intangible amortization | **80** | **21** | **4** | **0** | **105** |
| Other non-interest expense | **1,777** | **977** | **266** | **182** | **3,202** |
| Total non-interest expense | **1,857** | **998** | **270** | **182** | **3,307** |
| Income (loss) from continuing operations before income taxes | **726** | **457** | **270** | **(217)** | **1,236** |
| Income tax provision (benefit) | **263** | **166** | **98** | **(143)** | **384** |
| Income (loss) from continuing operations, net of tax | **$ 463** | **$ 291** | **$ 172** | **$ (74)** | **$ 852** |
| Loans held for investment | **$ 87,203** | **$ 71,176** | **$ 51,231** | **$ 95** | **$ 209,705** |
| Deposits | **0** | **170,321** | **32,909** | **5,550** | **208,780** |

| | Three Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | **Credit Card** | **Consumer Banking** | **Commercial Banking** | **Other** | **Consolidated Total** |
| Net interest income (expense) | $ 2,461 | $ 1,431 | $ 436 | $ (13) | $ 4,315 |
| Non-interest income | 839 | 170 | 109 | 35 | 1,153 |
| Total net revenue | 3,300 | 1,601 | 545 | 22 | 5,468 |
| Provision for credit losses | 549 | 143 | 12 | 0 | 704 |
| Non-interest expense: | | | | | |
| Amortization of intangibles: | | | | | |
| PCCR intangible amortization | 94 | 0 | 0 | 0 | 94 |
| Core deposit intangible amortization | 0 | 28 | 5 | 0 | 33 |
| Total PCCR and core deposit intangible amortization | 94 | 28 | 5 | 0 | 127 |
| Other non-interest expense | 1,625 | 910 | 262 | 55 | 2,852 |
| Total non-interest expense | 1,719 | 938 | 267 | 55 | 2,979 |
| Income (loss) from continuing operations before income taxes | 1,032 | 520 | 266 | (33) | 1,785 |
| Income tax provision (benefit) | 364 | 186 | 95 | (64) | 581 |
| Income from continuing operations, net of tax | $ 668 | $ 334 | $ 171 | $ 31 | $ 1,204 |
| Loans held for investment | $ 79,018 | $ 71,062 | $ 48,321 | $ 127 | $ 198,528 |
| Deposits | 0 | 169,153 | 31,440 | 5,297 | 205,890 |

**CAPITAL ONE FINANCIAL CORPORATION**
**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**

| | Six Months Ended June 30, 2015 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Credit Card | Consumer Banking | Commercial Banking | Other | Consolidated Total |
| Net interest income | $ 5,299 | $ 2,878 | $ 927 | $ 9 | $ 9,113 |
| Non-interest income | 1,661 | 354 | 237 | (46) | 2,206 |
| Total net revenue (loss) | 6,960 | 3,232 | 1,164 | (37) | 11,319 |
| Provision for credit losses | 1,564 | 391 | 109 | 0 | 2,064 |
| Non-interest expense: | | | | | |
| Amortization of intangibles: | | | | | |
| PCCR intangible amortization | 164 | 0 | 0 | 0 | 164 |
| Core deposit intangible amortization | 0 | 43 | 8 | 0 | 51 |
| Total PCCR and core deposit intangible amortization | 164 | 43 | 8 | 0 | 215 |
| Other non-interest expense | 3,469 | 1,925 | 534 | 213 | 6,141 |
| Total non-interest expense | 3,633 | 1,968 | 542 | 213 | 6,356 |
| Income (loss) from continuing operations before income taxes | 1,763 | 873 | 513 | (250) | 2,899 |
| Income tax provision (benefit) | 632 | 316 | 186 | (221) | 913 |
| Income (loss) from continuing operations, net of tax | $ 1,131 | $ 557 | $ 327 | $ (29) | $ 1,986 |
| Loans held for investment | $ 87,203 | $ 71,176 | $ 51,231 | $ 95 | $ 209,705 |
| Deposits | 0 | 170,321 | 32,909 | 5,550 | 208,780 |

| | Six Months Ended June 30, 2014 | | | | |
|---|---|---|---|---|---|
| *(Dollars in millions)* | Credit Card | Consumer Banking | Commercial Banking | Other | Consolidated Total |
| Net interest income (expense) | $ 4,986 | $ 2,864 | $ 857 | $ (42) | $ 8,665 |
| Non-interest income | 1,624 | 320 | 196 | 33 | 2,173 |
| Total net revenue (loss) | 6,610 | 3,184 | 1,053 | (9) | 10,838 |
| Provision (benefit) for credit losses | 1,107 | 283 | 52 | (3) | 1,439 |
| Non-interest expense: | | | | | |
| Amortization of intangibles: | | | | | |
| PCCR intangible amortization | 192 | 0 | 0 | 0 | 192 |
| Core deposit intangible amortization | 0 | 58 | 11 | 0 | 69 |
| Total PCCR and core deposit intangible amortization | 192 | 58 | 11 | 0 | 261 |
| Other non-interest expense | 3,253 | 1,810 | 511 | 76 | 5,650 |
| Total non-interest expense | 3,445 | 1,868 | 522 | 76 | 5,911 |
| Income (loss) from continuing operations before income taxes | 2,058 | 1,033 | 479 | (82) | 3,488 |
| Income tax provision (benefit) | 722 | 369 | 171 | (102) | 1,160 |
| Income from continuing operations, net of tax | $ 1,336 | $ 664 | $ 308 | $ 20 | $ 2,328 |
| Loans held for investment | $ 79,018 | $ 71,062 | $ 48,321 | $ 127 | $ 198,528 |
| Deposits | 0 | 169,153 | 31,440 | 5,297 | 205,890 |

## NOTE 14—COMMITMENTS, CONTINGENCIES, GUARANTEES AND OTHERS

**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 GreenPoint Credit, LLC in 2000. Our maximum credit exposure related to these agreements totaled $13 million and $14 million as of June 30, 2015 and December 31, 2014, respectively. These agreements are recorded on our consolidated balance sheets as a component of other liabilities and our obligations under these agreements was $10 million and $12 million as of June 30, 2015 and December 31, 2014, respectively. See “Note 6—Variable Interest Entities and Securitizations” for additional information about our manufactured housing securitization transactions.

**Letters of Credit and Loss Sharing Agreements**

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. These 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.

On November 1, 2013, we acquired Beech Street Capital, a privately-held, DUS lender that originates multifamily commercial real estate loans with the intent to sell them to a government-sponsored enterprise (“GSE”). Beech Street Capital was renamed Capital One Multifamily Finance in 2014. We enter into loss sharing agreements with Fannie Mae upon the sale of the DUS commercial loans. Under these agreements, we share losses on the covered loans with Fannie Mae on a pari-passu basis. At inception, we record a liability representing the fair value of our obligation which is subsequently amortized as we are released from risk of payment under the loss sharing agreement. If payment under the loss sharing agreement becomes probable and estimable, an additional liability may be recorded on the consolidated balance sheets and a non-interest expense may be recognized in the consolidated statements of income. The associated MSRs are also reviewed for impairment on a quarterly basis.

We had standby letters of credit and commercial letters of credit with contractual amounts of $2.0 billion and $2.1 billion as of June 30, 2015 and December 31, 2014, respectively. The carrying value of outstanding letters of credit, which we include in other liabilities on our consolidated balance sheets was $3 million as of both June 30, 2015 and December 31, 2014. These financial guarantees had expiration dates ranging from 2015 to 2025 as of June 30, 2015. The amount of liability recognized on our consolidated balance sheets for Fannie Mae and other loss sharing agreements was $40 million and $36 million as of June 30, 2015 and December 31, 2014, respectively. No additional collateral or recourse provisions exist to reduce this exposure.

**U.K. Cross Sell**

In the U.K., we previously sold payment protection insurance (“PPI”) and other ancillary cross sell products. 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 Conduct Authority (“FCA”), formerly the Financial Services Authority, investigated and raised concerns about the way the industry has handled complaints related to the sale of these insurance policies. For the past several years, the U.K.’s Financial Ombudsman Service (“FOS”) has been adjudicating customer complaints relating to PPI, escalated to it by consumers who disagree with the rejection of their complaint by firms, leading to customer remediation payments by us and others within the industry. In determining our best estimate of incurred losses for future remediation payments, management considers numerous factors, including: (i) the number of customer complaints we expect in the future; (ii) our expectation of upholding those complaints; (iii) the expected number of complaints customers escalate to the FOS; (iv) our expectation of the FOS upholding such escalated complaints; and (v) the estimated remediation payout to customers. We monitor these factors each quarter and adjust our reserves to reflect the latest data. Management’s best estimate of incurred losses related to U.K. cross sell products, including PPI, totaled $160 million and $116 million as of June 30, 2015 and December 31, 2014, respectively. In the three months ended June 30, 2015 we added $78 million to our reserve reflecting an updated assumption of the number of customer complaints we expect in the future because the actual amount of customer complaints received over the most recent quarters did not decline at the pace we previously assumed. Given the inherent uncertainty involved in this matter, it is possible our ultimate liability may materially exceed our current estimate.

In particular, there is an incremental risk to our U.K. PPI reserve stemming from the U.K. Supreme Court's 2014 ruling in *Plevin v. Paragon Personal Finance Limited* ("Plevin"). The Supreme Court in Plevin ruled that a purchaser of single premium PPI was owed remediation as the non-disclosure of a high commission was found to have caused an unfair relationship because this omission was material to the consumer's purchase decision. At this time, both the FOS and the FCA are in the process of determining whether and how the Plevin ruling may apply. A significant proportion of our incremental reserve risk comes from our past sale of monthly premium PPI, as opposed to the single premium PPI considered in Plevin, therefore it is impossible for us to determine at this time what, if any, impact the Plevin ruling will have on our future customer refund payments. While we are unable to estimate the additional possible loss or range of additional losses we may incur on these matters, it is nonetheless reasonably possible that the application of the Plevin ruling may have a material impact on our U.K. PPI reserve.

**Mortgage Representation and Warranty Liabilities**

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

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 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 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, taking into account 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-related requests and other related claims.

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 unpaid principal balance as of June 30, 2015 and December 31, 2014:

**Table 14.1: Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser**

| | Estimated Unpaid Principal Balance | | Original Principal Balance | | | | |
|---|---|---|---|---|---|---|---|
| *(Dollars in billions)* | **June 30, 2015** | **December 31, 2014** | **Total** | **2008** | **2007** | **2006** | **2005** |
| GSEs | **$ 2** | $ 3 | $ 11 | $ 1 | $ 4 | $ 3 | $ 3 |
| Insured Securitizations | **4** | 4 | 20 | 0 | 2 | 8 | 10 |
| Uninsured Securitizations and Other | **15** | 16 | 80 | 3 | 15 | 30 | 32 |
| Total | **$ 21** | $ 23 | $ 111 | $ 4 | $ 21 | $ 41 | $ 45 |

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 bond insurance. Further, approximately $16 billion original principal balance was placed in securitizations as to which the monoline bond insurers have made repurchase-related 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-related 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-related 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 was placed in 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 the remaining $10 billion original principal balance of mortgage loans.

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 $21 billion in unpaid principal balance remains outstanding as of June 30, 2015, of which approximately $4 billion in unpaid principal balance is at least 90 days delinquent. Approximately $22 billion in losses have been realized by third parties. 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.

The subsidiaries had open repurchase-related requests with regard to approximately $1.7 billion original principal balance of mortgage loans as of June 30, 2015, an $837 million decrease from December 31, 2014. Currently, repurchase-related demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase-related demands from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

The following table presents information on pending repurchase-related requests by counterparty category and timing of initial request. The amounts presented are based on original loan principal balances.

**Table 14.2: Open Pipeline All Vintages (all entities)[(1)]**

| *(Dollars in millions)* | GSEs | Insured Securitizations | Uninsured Securitizations and Other | Total |
|---|---|---|---|---|
| Open claims as of December 31, 2013 | $ 89 | $ 1,614 | $ 1,122 | $ 2,825 |
| Gross new demands received | 22 | 0 | 742 | 764 |
| Loans repurchased/made whole | (31) | 0 | (5) | (36) |
| Demands rescinded | (64) | (965) | (12) | (1,041) |
| Open claims as of December 31, 2014 | $ 16 | $ 649 | $ 1,847 | $ 2,512 |
| Gross new demands received | **16** | **0** | **17** | **33** |
| Loans repurchased/made whole | **(12)** | **0** | **(1)** | **(13)** |
| Demands rescinded | **(13)** | **(106)** | **(738)** | **(857)** |
| Open claims as of June 30, 2015 | **$ 7** | **$ 543** | **$ 1,125** | **$ 1,675** |

(1) The open pipeline includes all timely repurchase-related requests ever received by our subsidiaries where the requesting party has not formally rescinded the repurchase-related request or our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its

losses. The demands rescinded reflect the June 2015 ruling from New York's highest court that the statute of limitations for repurchase claims begins when the relevant representations and warranties were made, as opposed to some later date during the life of the loan. 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.

The following table summarizes changes in our representation and warranty reserve for the three and six months ended June 30, 2015 and 2014:

**Table 14.3: Changes in Representation and Warranty Reserve[(1)]**

| | Three Months Ended June 30, | | Six Months Ended June 30, | |
|---|---|---|---|---|
| *(Dollars in millions)* | **2015** | **2014** | **2015** | **2014** |
| Representation and warranty reserve, beginning of period | **$ 673** | $ 1,128 | **$ 731** | $ 1,172 |
| (Benefit) provision for mortgage representation and warranty losses: | | | | |
| Recorded in continuing operations | **(9)** | (29) | **(8)** | (15) |
| Recorded in discontinued operations | **(27)** | 11 | **(46)** | (36) |
| Total benefit for mortgage representation and warranty losses | **(36)** | (18) | **(54)** | (51) |
| Net realized losses | **(1)** | (98) | **(41)** | (109) |
| Representation and warranty reserve, end of period | **$ 636** | $ 1,012 | **$ 636** | $ 1,012 |

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

The following table summarizes the allocation of our representation and warranty reserve as June 30, 2015 and December 31, 2014.

**Table 14.4: Allocation of Representation and Warranty Reserve**

| | Reserve Liability | | |
|---|---|---|---|
| *(Dollars in millions, except for loans sold)* | **June 30, 2015** | **December 31, 2014** | **Loans Sold 2005 to 2008[(1)]** |
| **Selected period-end data:** | | | |
| GSEs and Active Insured Securitizations | **$ 486** | $ 499 | $ 27 |
| Inactive Insured Securitizations and Others | **150** | 232 | 84 |
| Total[(2)] | **$ 636** | $ 731 | $ 111 |

(1) Reflects, in billions, the total original principal balance of loans originated by our subsidiaries and sold to third-party investors between 2005 and 2008.

(2) The total reserve liability includes an immaterial amount related to loans that were originated after 2008.

We established reserves for the $11 billion original principal balance of GSE loans, based on open claims and historic repurchase rates. We have entered into and completed repurchase or settlement agreements with respect to the majority of our repurchase exposure within this category.

Our reserves could also be impacted by any claims which may be brought by governmental agencies under the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA"), the False Claims Act, or other federal or state statutes. For example, GreenPoint and Capital One have received requests for information and/or subpoenas from various governmental regulators and law enforcement authorities, including members of the RMBS Working Group, relating to the origination of loans for sale to the GSEs and to RMBS participants. We are cooperating with these regulators and other authorities in responding to such requests.

For the $16 billion original principal balance in Active Insured Securitizations, our reserving approach is based upon the expected resolution of litigation with the monoline bond insurers. 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 developing factual and legal record to estimate the liability for each securitization. We consider as factors within the analysis our own past monoline settlements in addition to publicly available industry monoline settlements. Our reserves with respect to the U.S. Bank Litigation, 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 based on an assessment of probable and estimable legal liability, if any, utilizing both our own experience and publicly available industry settlement information to estimate lifetime liability. In contrast with the bond insurers in the 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. Accordingly, we only reserve for such exposures when a trustee or investor with standing brings claims and it is probable we have incurred a loss. 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 indirect indemnity risks from these litigations, we generally have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities. In addition, to the extent we have litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by parties who purchased loans from our subsidiaries and subsequently re-sold the loans into securitizations, such reserves are also contained within this category.

For the $22 billion original principal balance of mortgage loans sold to private investors as whole loans, we establish reserves based on open claims and historical repurchase rates.

The aggregate reserve for all three subsidiaries totaled $636 million as of June 30, 2015, compared to $731 million as of December 31, 2014. We recorded a net benefit for mortgage representation and warranty losses of $54 million (which includes a benefit of $8 million before taxes in continuing operations and a benefit of $46 million before taxes in discontinued operations) in the first six months of 2015. The decrease in the representation and warranty reserve was primarily driven by settlements and favorable industry legal developments, including a ruling from New York’s highest court that the statute of limitations for repurchase claims begins when the relevant representations and warranties were made, as opposed to some later date during the life of the loan.

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of June 30, 2015 is approximately $1.6 billion, a decrease from our $2.1 billion estimate at December 31, 2014. The decrease in this estimate was primarily driven by favorable industry legal developments, including the statute of limitations ruling from New York’s highest court mentioned above. The estimate as of June 30, 2015 covers all reasonably possible losses relating to representation and warranty claim activity, including those relating to the U.S. Bank Litigation, the FHFA Litigation, and the LXS Trust Litigation described below.

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 as high as 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 repurchase-related requests will be resolved at discounts reflecting the nature of the claims, the vintage of the underlying loans and evolving legal precedents.

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: litigation outcomes; court rulings; governmental enforcement decisions; 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 potentially material legal proceedings and claims.

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 FHFA Litigation, and the LXS Trust 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 beyond what was in our reserve as of June 30, 2015 was approximately $250 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, especially those involving governmental actors, 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. In July 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. 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. In December 2013, the court granted final approval of the proposed class settlement, which was appealed to the Second Circuit Court of Appeals in January 2014. Several merchant plaintiffs have also opted out of the class settlement, some of which have sued MasterCard, Visa and various member banks, including Capital One (collectively “the Opt-Out Plaintiffs”). Relatedly, in December 2013, individual consumer plaintiffs also filed a proposed national class action against a number of banks, including Capital One, alleging that because the banks conspired to fix interchange fees, consumers were forced to pay more for the fees than appropriate. The consumer case and virtually all of the opt-out cases were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. In November 2014, the court dismissed the proposed consumer class action. The remaining consolidated cases are in their preliminary stages, and Visa and MasterCard have settled a number of individual opt-out cases, requiring non-material payments from all banks, including Capital One.

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 as of June 30, 2015 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 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. In March 2014, the court granted a partial motion for class certification. Both parties appealed the decision to the Court of Appeal for British Columbia, which heard oral argument in December 2014. In April 2015, the merchant plaintiffs and Capital One agreed to settle all matters filed in Canada as to Capital One, subject to court approval.

***Credit Card Interest Rate Litigation***

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 U.S. 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. In August 2010, the plaintiffs in the MDL filed a Consolidated Amended Complaint alleging that COBNA breached its contractual obligations, and violated the Truth in Lending Act (“TILA”), the California Consumers Legal Remedies Act, the Unfair Competition Law (“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. As a result of a settlement in another matter, the California-based UCL and TILA claims in the MDL are extinguished. The MDL plaintiffs seek statutory damages, restitution, attorney’s fees and an injunction against future rate increases. In August 2011, after the completion of fact discovery, Capital One filed a motion for summary judgment, which was granted in September 2014. Plaintiffs filed a Notice of Appeal to the Eleventh Circuit Court of Appeals in October 2014.

***Mortgage Repurchase Litigation***

In February 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 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. In March 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. In February 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”), which affirmed the dismissal in April 2013. The New York Court of Appeals denied Syncora’s and CIFG’s motion for leave to appeal the First Department’s decision in February 2014. Therefore, the case is now proceeding with U.S. Bank as the sole plaintiff.

In May, June, and July 2012, FHFA (acting as conservator for Freddie Mac) filed three summonses with notice in the New York state court against GreenPoint, on behalf of the trustees for three RMBS trusts backed by loans originated by GreenPoint with an aggregate original principal balance of $3.4 billion. In January 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 GreenPoint underwriting guidelines relating to certain loans (the “FHFA 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. GreenPoint moved to dismiss the case as untimely under New York's statute of limitations, and the court denied the motion without prejudice to renew it after the completion of relevant discovery.

In July 2013, Lehman XS Trust, Series 2006-4N, by its trustee U.S. Bank, N.A. filed a lawsuit in the Southern District of New York against GreenPoint alleging breaches of representations and warranties made in certain loan sale agreements, pursuant to which GreenPoint sold mortgage loans with an original principal balance of $915 million to Lehman Brothers for securitization and sale to investors. The lawsuit ("the LXS Trust Litigation") seeks specific performance of GreenPoint's obligation to repurchase certain allegedly breaching loans, or in the alternative, the repurchase of all loans in the trust, the award of rescissory damages, costs, fees and interest. In January 2014, the court granted GreenPoint's motion to dismiss based on the statute of limitations, ruling that New York's six-year statute of limitations began running no later than the time of the mortgage securitization. The plaintiff has appealed the dismissal of the complaint.

As noted above in the section entitled Mortgage Representation and 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.

***Anti-Money Laundering***

Capital One has received requests for subpoenas and testimony from the New York District Attorney's Office ("NYDA") with respect to certain check casher clients of the Commercial Banking business and Capital One's anti-money laundering ("AML") program. In early 2015, we received similar requests from the U.S. Department of Justice ("DOJ") and the Financial Crimes Enforcement Network ("FinCEN") of the U.S. Department of Treasury. Capital One is cooperating with all agencies involved in the investigation**.**

In July 2015, Capital One entered into a consent order with the Office of the Comptroller of the Currency ("OCC") concerning regulatory deficiencies in our AML program emanating from our former Check Cashing Group within the Commercial Banking business. We have made substantial progress in implementing the changes required by the OCC consent order, which changes do not have a material impact on our financial results or operations.

***Subprime Auto Loan Investigations***

Capital One has received a subpoena from the NYDA seeking information regarding the Company's subprime auto finance business. Capital One has also received a subpoena from the DOJ's New Jersey office requesting information related to subprime auto origination and securitization activities. Capital One is cooperating with both investigations.

***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 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 was 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, captioned 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. In March 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. In June 2012, the MDL court granted plaintiff's motion for class certification. The parties reached an agreement to resolve the class claims in October 2014, and the court granted final approval of the proposed settlement in May 2015.

***Intellectual Ventures Corp., et al.***

In June 2013, Intellectual Ventures I, LLC and Intellectual Ventures II, LLC (collectively "IV") sued Capital One Financial Corp., Capital One Bank (USA), N.A. and Capital One, N.A. (collectively "Capital One") for patent infringement in the U.S. District

Court for the Eastern District of Virginia. In the Complaint, IV alleges infringement of patents related to various business processes across the Capital One enterprise. IV simultaneously filed patent infringement actions against numerous other financial institutions on the same and other patents in several other federal courts. Capital One's motion to dismiss was denied without prejudice in August 2013. Capital One filed an answer and counterclaim alleging antitrust violations. In December 2013, the court dismissed Capital One's counterclaim and decided the parties' arguments on claim construction. IV agreed to dismiss two patents in suit, and following claim construction, asked for a stipulation of non-infringement for one patent with an opportunity to appeal the court's decision regarding claim construction. In April 2014, the court granted Capital One's motion for summary judgment and found that the two remaining patents were either unpatentable or indefinite. In May 2014, IV appealed to the Federal Circuit, which affirmed the district court's dismissal of all three remaining patents in July 2015.

In January 2014, IV filed a second suit against Capital One for patent infringement in the U.S. District Court for the District of Maryland. In the complaint, IV again alleges infringement of patents related to various business practices across the Capital One enterprise. IV has voluntarily dismissed one of the patents against Capital One. The parties are currently engaged in discovery and claim construction on the remaining patents. In March 2015, the court granted Capital One's motion for leave to add a counterclaim for antitrust violations by IV.

***Telephone Consumer Protection Act Litigation***

In December 2012, the Capital One Telephone Consumer Protection Act ("TCPA") Litigation Multi-district Litigation matter was created as a result of a transfer order issued by the U.S. Judicial Panel on Multi-district Litigation ("TCPA MDL"), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Illinois three pending putative class actions-Bridgett Amadeck, et al. v. Capital One Financial Corporation, et al. (W.D. Washington); Nicholas Martin, et al. v. Capital One Bank (USA), N.A., et al. (N.D. Illinois); and Charles C. Patterson v. Capital One Bank (USA), N.A., et al. (N.D. Illinois) and several individual lawsuits. In February 2013, the putative class action plaintiffs in the TCPA MDL filed a Consolidated Master Class Action Complaint alleging that COBNA and/or entities acting on its behalf violated the TCPA by contacting consumers on their cellular telephones using an automatic telephone dialing system and/or artificial or prerecorded voice without first obtaining prior express consent to do so. The plaintiffs seek statutory damages for alleged negligent and willful violations of the TCPA, attorneys' fees, costs, and injunctive relief. In June 2014, the parties filed a settlement agreement resolving the litigation. The court granted preliminary approval of the class settlement in July 2014, and granted final approval in February 2015. The Seventh Circuit terminated appeals of the settlement in June 2015, and the settlement is now final.

***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.

## Item 3. Quantitative and Qualitative Disclosures About Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see “MD&A—Risk Management—Market Risk Management” and “MD&A—Market Risk Profile.”

## 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 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 June 30, 2015, the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of June 30, 2015, 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. There were no changes in internal control over financial reporting that occurred in the second quarter of 2015 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

# PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

The information required by Item 103 of Regulation S-K is included in "Note 14—Commitments, Contingencies, Guarantees and Others."

## 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 2014 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information related to repurchases of shares of our common stock for each calendar month in the second quarter of 2015:

| *(Dollars in millions, except per share information)* | Total Number of Shares Purchased[1] | Average Price Paid per Share[2] | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Amount That May Yet be Purchased Under the Plan or Program[2] |
|---|---|---|---|---|
| April | **2,220,309** | **$ 81.05** | **2,216,884** | **$ 2,945** |
| May | **2,483,269** | **83.08** | **2,480,017** | **2,739** |
| June | **2,764,703** | **86.57** | **2,764,046** | **2,500** |
| Total | **7,468,281** | **83.77** | **7,460,947** | |

(1) Primarily comprised of repurchases under the $3.125 billion common stock repurchase program authorized by our Board of Directors and announced on March 11, 2015, which authorized share repurchases through June 30, 2016. Also includes 3,425 shares, 3,252 shares and 657 shares purchased in April, May and June respectively, related to the withholding of shares to cover taxes on restricted stock awards whose restrictions have lapsed.

(2) Amounts exclude commission costs.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

An index to exhibits has been filed as part of this report and is incorporated herein by reference.

## 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: August 3, 2015 | By: | /s/ STEPHEN S. CRAWFORD |
| | | Stephen S. Crawford |
| | | Chief Financial Officer |

**EXHIBIT INDEX**
**CAPITAL ONE FINANCIAL CORPORATION**
**QUARTERLY REPORT ON FORM 10-Q**
**DATED JUNE 30, 2015**
**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 Company’s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; and (ii) the “2011 Form 10-K” are to the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012.

| Exhibit No. | Description |
|---|---|
| 2.1.1 | 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 Current Report on Form 8-K, filed on June 22, 2011). |
| 2.1.2 | 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 2011 Form 10-K). |
| 2.2.1 | 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 Current Report on Form 8-K, filed on August 12, 2011). |
| 2.2.2 | 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 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 restated April 30, 2015) (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on May 4, 2015). |
| 3.2 | Amended and Restated Bylaws of Capital One Financial Corporation, dated April 30, 2015 (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed on May 4, 2015). |
| 3.3.1 | 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 Current Report on Form 8-K, filed on August 20, 2012). |
| 3.3.2 | Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C, dated June 11, 2014 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed June 12, 2014). |
| 3.3.3 | Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D, dated October 29, 2014 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 31, 2014). |
| 3.3.4 | Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series E, dated May 12, 2015 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed May 14, 2015). |
| 4.1.1 | Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the 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 Form 8-A, filed on December 4, 2009). |
| 4.1.3 | Deposit Agreement, dated August 20, 2012 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed on August 20, 2012). |
| 4.2 | Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt are not filed. The Company agrees to furnish a copy thereof to the SEC upon request. |
| 12.1* | Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends. |
| 31.1* | Certification of Richard D. Fairbank. |
| 31.2* | Certification of Stephen S. Crawford. |
| 32.1* | Certification** of Richard D. Fairbank. |
| 32.2* | Certification** of Stephen S. Crawford. |
| 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.

**Exhibit 12.1**

## COMPUTATION OF RATIOS OF EARNINGS TO FIXED CHARGES AND EARNINGS TO COMBINED FIXED CHARGES AND PREFERRED STOCK DIVIDENDS[(1)(2)]

| *(Dollars in millions)* | Six Months Ended June 30, 2015 | Year Ended December 31, 2014 | 2013 | 2012 | 2011 | 2010 |
|---|---|---|---|---|---|---|
| **Ratios (including interest expense on deposits):** | | | | | | |
| Earnings: | | | | | | |
| Income from continuing operations before income taxes | **$ 2,899** | $ 6,569 | $ 6,578 | $ 5,184 | $ 4,688 | $ 4,406 |
| Adjustments: | | | | | | |
| Fixed charges | **801** | 1,586 | 1,796 | 2,377 | 2,251 | 2,903 |
| Equity in undistributed (gain) loss of unconsolidated subsidiaries | **(9)** | (1) | (16) | (22) | 4 | 8 |
| Earnings available for fixed charges, as adjusted | **3,691** | 8,154 | 8,358 | 7,539 | 6,943 | 7,317 |
| Fixed charges: | | | | | | |
| Interest expense on deposits and borrowings | **798** | 1,579 | 1,792 | 2,375 | 2,246 | 2,896 |
| Interest factor in rent expense | **3** | 7 | 4 | 2 | 5 | 7 |
| Total fixed charges | **801** | 1,586 | 1,796 | 2,377 | 2,251 | 2,903 |
| Preferred stock dividend requirements[(3)] | **89** | 100 | 77 | 20 | — | — |
| Total combined fixed charges and preferred stock dividends | **$ 890** | $ 1,686 | $ 1,873 | $ 2,397 | $ 2,251 | $ 2,903 |
| Ratio of earnings to fixed charges | **4.61** | 5.14 | 4.65 | 3.17 | 3.08 | 2.52 |
| Ratio of earnings to combined fixed charges and preferred stock dividends | **4.15** | 4.84 | 4.46 | 3.15 | 3.08 | 2.52 |
| | | | | | | |
| **Ratios (excluding interest expense on deposits):** | | | | | | |
| Earnings: | | | | | | |
| Income from continuing operations before income taxes | **$ 2,899** | $ 6,569 | $ 6,578 | $ 5,184 | $ 4,688 | $ 4,406 |
| Adjustments: | | | | | | |
| Fixed charges | **258** | 498 | 555 | 974 | 1,064 | 1,438 |
| Equity in undistributed (gain) loss of unconsolidated subsidiaries | **(9)** | (1) | (16) | (22) | 4 | 8 |
| Earnings available for fixed charges, as adjusted | **3,148** | 7,066 | 7,117 | 6,136 | 5,756 | 5,852 |
| Fixed charges: | | | | | | |
| Interest expense on borrowings[(4)] | **255** | 491 | 551 | 972 | 1,059 | 1,431 |
| Interest factor in rent expense | **3** | 7 | 4 | 2 | 5 | 7 |
| Total fixed charges | **258** | 498 | 555 | 974 | 1,064 | 1,438 |
| Preferred stock dividend requirements[(3)] | **89** | 100 | 77 | 20 | — | — |
| Total combined fixed charges and preferred stock dividends | **$ 347** | $ 598 | $ 632 | $ 994 | $ 1,064 | $ 1,438 |
| Ratio of earnings to fixed charges, excluding interest on deposits | **12.20** | 14.19 | 12.82 | 6.30 | 5.41 | 4.07 |
| Ratio of earnings to combined fixed charges, excluding interest on deposits, and preferred stock dividends | **9.07** | 11.82 | 11.26 | 6.17 | 5.41 | 4.07 |

(1) As of January 1, 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. See "Note 1—Summary of Significant Accounting Policies" for additional information. Prior periods have been recast to conform to this presentation.

(2) We acquired ING Direct on February 17, 2012. On May 1, 2012, we closed the 2012 U.S. card acquisition. Each of these transactions was accounted for under the acquisition method of accounting.

(3) Preferred stock dividends represent pre-tax earnings that would be required to cover any preferred stock dividends requirements, computed using our effective tax rate, whenever there is an income tax provision, for the relevant periods

(4) Represents total interest expense reported on our consolidated statements of income, excluding interest on deposits of $543 million for the six months ended June 30, 2015, and $1.1 billion, $1.2 billion, $1.4 billion, $1.2 billion and $1.5 billion for the years ended December 31, 2014, 2013, 2012, 2011 and 2010, respectively.

**Exhibit 31.1**

**CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Richard D. Fairbank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the Quarter ended June 30, 2015 of Capital One Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: August 3, 2015 | By: | /s/ RICHARD D. FAIRBANK |
| | | Richard D. Fairbank<br>Chair, Chief Executive Officer and President |

**Exhibit 31.2**

**CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Stephen S. Crawford, certify that,

1. I have reviewed this Quarterly Report on Form 10-Q for the Quarter ended June 30, 2015 of Capital One Financial Corporation;

2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;

3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;

4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:

   (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;

   (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;

   (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and

   (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and

5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):

   (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and

   (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

| | | |
|---|---|---|
| Date: August 3, 2015 | By: | /s/ STEPHEN S. CRAWFORD |
| | | Stephen S. Crawford<br>Chief Financial Officer |

**Exhibit 32.1**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Richard D. Fairbank, Chairman, Chief Executive Officer and President of Capital One Financial Corporation ("Capital One"), a Delaware corporation , do hereby certify that:

1. The Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the “Form 10-Q”) of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

| | | |
|---|---|---|
| Date: August 3, 2015 | By: | /s/ RICHARD D. FAIRBANK |
| | | Richard D. Fairbank |
| | | Chair, Chief Executive Officer and President |

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.

**Exhibit 32.2**

**Certification**
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Stephen S. Crawford, Chief Financial Officer of Capital One Financial Corporation ("Capital One"), a Delaware corporation, do hereby certify that:

1. The Quarterly Report on Form 10-Q for the quarter ended June 30, 2015 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and

2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

| | | |
|---|---|---|
| Date: August 3, 2015 | By: | /s/ STEPHEN S. CRAWFORD |
| | | Stephen S. Crawford<br>Chief Financial Officer |

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.