CAPITAL ONE FINANCIAL CORP
Form 10-Q
May 06, 2014
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UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

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

For the quarterly period ended March 31, 2014

OR

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

For the transition period from ______ to ______

Commission File No. 1-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

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

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

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

(Not applicable)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate 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 x No ¨

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

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

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

As of April 30, 2014, there were 571,580,051 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 2013 Annual Report on Form 10-K (2013 Form 10-K). Unless otherwise specified, references to notes to our consolidated financial statements refers to the notes to our unaudited condensed consolidated financial statements as of March 31, 2014 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited condensed consolidated financial statements and related notes in this Report and the more detailed information contained in our 2013 Form 10-K.

SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the first quarter of 2014 and 2013, and selected comparative balance sheet data as of March 31, 2014 and December 31, 2013. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been reclassified to conform to the current period presentation. The comparability of our results of operations between reported periods is impacted by the following transactions completed in 2013:

On November 1, 2013, we completed the acquisition of Beech Street Capital, a privately-held, national originator and servicer of Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac) and Federal Housing Administration (FHA) multifamily commercial real estate loans.

On September 6, 2013, we completed the sale of the Best Buy private label and co-branded credit card portfolio to Citibank, N.A (Portfolio Sale). Pursuant to the agreement we received $6.4 billion for the net portfolio assets.

In 2012, we completed the acquisitions of (i) substantially all of the assets and assumed liabilities of HSBC s credit card and private-label credit card business in the United States (other than the HSBC Bank USA, National Association consumer credit card program and certain other retained assets and liabilities) (the 2012 U.S. card acquisition); and (ii) substantially all of the ING Direct business in the United States (ING Direct) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (the ING Direct acquisition).

We use the term Acquired Loans to refer to a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank, F.S.B. (CCB) acquisitions, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as Statement of Position 03-3, *Accounting for Certain Loans or Debt Securities Acquired in a Transfer*, commonly referred to as SOP 03-3). The period-end carrying value of acquired loans accounted for subsequent to acquisition based on expected cash flows to be collected was $27.4 billion and $28.6 billion as of March 31,

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2014 and December 31, 2013, respectively. 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 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 is 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. The accounting and classification of these loans may significantly alter some of our reported credit quality metrics. We therefore supplement certain reported credit quality metrics with metrics adjusted to exclude the impact of these Acquired Loans. For additional information, see MD&A Credit Risk Profile and Note 4 Loans.

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

(Dollars in millions, except per share data as noted)	Three Months Ended March 31, 2014	2013	Change
Income statement			
Net interest income	**$ 4,350**	$ 4,570	**(5)%**
Non-interest income	**1,020**	981	**4**
Total net revenue[2]	**5,370**	5,551	**(3)**
Provision for credit losses	**735**	885	**(17)**
Non-interest expense[3]	**2,932**	2,991	**(2)**
Income from continuing operations before income taxes	**1,703**	1,675	**2**
Income tax provision	**579**	541	**7**
Income from continuing operations, net of tax	**1,124**	1,134	**(1)**
Income (Loss) from discontinued operations, net of tax	**30**	(78)	**138**
Net income	**1,154**	1,056	**9**
Dividends and undistributed earnings allocated to participating securities	**(5)**	(5)	**
Preferred stock dividends	**(13)**	(13)	**
Net income available to common shareholders	**$ 1,136**	$ 1,038	**9%**
Common share statistics			
Earnings per common share:			
Basic earnings per common share	**$ 1.99**	$ 1.79	**11%**
Diluted earnings per common share	**1.96**	1.77	**11**
Weighted average common shares outstanding:			
Basic	**571.0**	580.5	**(2)**
Diluted	**580.3**	586.3	**(1)**
Dividends per common share.	**0.30**	0.05	**500**
Average balances			
Loans held for investment[4]	**$ 193,722**	$ 195,997	**(1)%**
Interest-earning assets	**262,659**	272,345	**(4)**
Total assets	**294,275**	303,226	**(3)**
Interest-bearing deposits	**184,183**	190,612	**(3)**
Total deposits	**205,842**	211,555	**(3)**
Borrowings	**35,978**	41,574	**(13)**
Common equity	**42,006**	40,027	**5**
Total stockholders equity	**42,859**	40,880	**5**

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(Dollars in millions, except per share data as noted)	Three Months Ended March 31, 2014	2013	Change
Selected performance metrics			
Purchase volume[5]	**$ 47,434**	$ 45,098	**5%**
Total net revenue margin[6]	**8.18%**	8.15%	**3bps**
Net interest margin[7]	**6.62**	6.71	**(9)**
Net charge-offs	**$ 931**	$ 1,079	**(14)%**
Net charge-off rate[8]	**1.92%**	2.20%	**(28)bps**
Net charge-off rate (excluding Acquired Loans)[9]	**2.24**	2.69	**(45)**
Return on average assets[10]	**1.53**	1.50	**3**
Return on average tangible assets[11]	**1.61**	1.58	**3**
Return on average common equity[12]	**10.53**	11.15	**(62)**
Return on average tangible common equity[13]	**16.83**	18.69	**(186)**
Equity-to-assets ratio[14]	**14.56**	13.48	**108**
Non-interest expense as a % of average loans held for investment[15]	**6.05**	6.10	**(5)**
Efficiency ratio[16]	**54.60**	53.88	**72**
Effective income tax rate from continuing operations	**34.0**	32.3	**170**

(Dollars in millions except per share data as noted)	March 31, 2014	December 31, 2013	Change
Balance sheet (period end)			
Loans held for investment[4]	**$ 192,941**	$ 197,199	**(2)%**
Interest-earning assets	**259,422**	265,170	**(2)**
Total assets	**290,500**	296,933	**(2)**
Interest-bearing deposits	**184,214**	181,880	**1**
Total deposits	**208,324**	204,523	**2**
Borrowings	**30,118**	40,654	**(26)**
Common equity	**41,948**	40,779	**3**
Total stockholders equity	**42,801**	41,632	**3**
Credit quality metrics (period end)			
Allowance for loan and lease losses.	**$ 4,098**	$ 4,315	**(5)%**
Allowance as a % of loans held for investment (allowance coverage ratio)	**2.12%**	2.19%	**(7)bps**
Allowance as a % of loans held for investment (excluding Acquired Loans)[9]	**2.45**	2.54	**(9)**
30+ day performing delinquency rate	**2.22**	2.63	**(41)**
30+ day performing delinquency rate (excluding Acquired Loans)[9]	**2.59**	3.08	**(49)**
30+ day delinquency rate	**2.51**	2.96	**(45)**
30+ day delinquency rate (excluding Acquired Loans)[9]	**2.93**	3.46	**(53)**
Capital ratios[17]			
Common equity Tier 1 capital ratio[18]	**12.98%**	N/A	**
Tier 1 common ratio[19]	**N/A**	12.19%	**
Tier 1 risk-based capital ratio[20]	**13.36**	12.57	**79bps**
Total risk-based capital ratio[21]	**15.42**	14.69	**73**
Tier 1 leverage ratio[22]	**10.42**	10.06	**36**
Tangible common equity (TCE) ratio[23]	**9.56**	8.89	**67**
Associates			
Full-time equivalent employees (in thousands)	**41.1**	42.0	**(2)%**

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

[1] We adopted ASU 2014-01 *Accounting for Investments in Qualified Affordable Housing Projects* (Investments in Qualified Affordable Housing Projects) as of January 1, 2014. As permitted by the guidance, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. The proportional amortization method amortizes the cost of the investment over the period in which we will receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. Historically, these investments were accounted for under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. See Note 1 Summary of Significant Accounting Policies for additional information. Prior period results and related metrics have been recast to conform to this presentation.

[2] Total net revenue was reduced by $163 million and $265 million in the first quarter of 2014 and 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees.

[3] Includes purchased credit card relationship (PCCR) intangible amortization of $98 million and $116 million in the first quarter of 2014 and 2013, respectively, the substantial majority of which is attributable to the 2012 U.S. card acquisition. Also includes core deposit intangible amortization of $36 million and $44 million, and acquisition-related costs of $23 million and $46 million in the first quarter of 2014 and 2013, respectively. These acquisition-related costs are comprised of transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

[4] Loans held for investment includes loans acquired in the CCB, ING Direct and 2012 U.S. card acquisitions. See Note 4 Loans for additional information on Acquired Loans.

[5] 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.

[6] Calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.

[7] Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.

[8] Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.

[9] Calculation of ratio adjusted to exclude Acquired Loans. See MD&A Business Segment Financial Performance, MD&A Credit Risk Profile and Note 4 Loans for additional information on the impact of Acquired Loans on our credit quality metrics.

[10] Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.

[11] 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 Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information.

[12] 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.

[13] 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 tangible common equity. Our calculation of return on average tangible common equity may not be comparable to similarly titled measures reported by other companies. See MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information.

[14] Calculated based on average stockholders equity for the period divided by average total assets for the period.

[15] Calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.

[16] Calculated based on non-interest expense for the period divided by total net revenue for the period.

[17] Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital under Basel I.

[18] Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on Common equity Tier 1 capital divided by risk- weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

[19] Tier 1 common capital ratio is a regulatory capital measure calculated based on Tier 1 common equity divided by Basel I risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

[20] Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

[21] Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

[22] Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by average assets, after certain adjustments. See MD&A Capital Management and MD&A Supplemental Tables Table A: Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures for additional information, including the calculation of this ratio.

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

INTRODUCTION

General

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the Company) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2014, 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 and should be read in conjunction with the Consolidated Financial Statements included in this Report.

We had total loans held for investment of $192.9 billion, deposits of $208.3 billion and stockholders equity of $42.8 billion as of March 31, 2014, compared with total loans held for investment of $197.2 billion, deposits of $204.5 billion and stockholders equity of $41.6 billion as of December 31, 2013.

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

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

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

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

Table 2 summarizes our business segment results, which we report based on income from continuing operations, net of tax, for the first quarter of 2014 and 2013 respectively. We provide information on the allocation methodologies used to derive our business segment results in Note 19 Business Segments in our 2013 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the U.S. (U.S. GAAP) results in Note 13 Business Segments of this Report.

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Table 2: Business Segment Results[1]

	Three Months Ended March 31,							
	2014				2013			
	Total Net Revenue[2]		Net Income (Loss)[3]		Total Net Revenue[2]		Net Income (Loss)[3]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	**$ 3,310**	**62%**	**$ 668**	**60%**	$ 3,651	66%	$ 686	60%
Consumer Banking	**1,583**	**30**	**330**	**29**	1,659	30	383	34
Commercial Banking[4]	**508**	**9**	**137**	**12**	485	8	193	17
Other[5]	**(31)**	**(1)**	**(11)**	**(1)**	(244)	(4)	(128)	(11)
Total from continuing operations	**$ 5,370**	**100%**	**$ 1,124**	**100%**	$ 5,551	100%	$ 1,134	100%

(1) In the first quarter of 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) Total net revenue consists of net interest income and non-interest income.

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

(4) On investments that generate tax-exempt income tax or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis.

(5) Includes the residual impact of the allocation of certain items, our centralized Corporate Treasury group activities, as well as other items as described in Note 19 Business Segments in our 2013 Form 10-K.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of $1.2 billion ($1.96 per diluted common share) on total net revenue of $5.4 billion for the first quarter of 2014. In comparison, we reported net income of $1.1 billion ($1.77 per diluted common share) on total net revenue of $5.6 billion for the first quarter of 2013.

Beginning on January 1, 2014, we calculate our regulatory capital under the Basel III Standardized Approach subject to transition provisions. Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 12.98% as of March 31, 2014. Our Tier 1 common ratio, as calculated under Basel I was 12.19% as of December 31, 2013. These numbers are not directly comparable.

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 (2014 Stock Repurchase Program). See Capital Management below for additional information.

In the first quarter of 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. These investments are accounted for in our Commercial Banking business and Other segments. Prior period amounts have been recast to conform to the current period presentation. We provide additional information on the adoption under Accounting Changes and Developments and Note 1 Summary of Significant Accounting Policies .

Below are additional highlights of our performance in the first quarter of 2014. These highlights generally are based on a comparison between the results of the first quarter of 2014 and 2013, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of March 31, 2014, compared with our financial condition and credit performance as of December 31, 2013. We provide a more detailed discussion of our financial performance in the sections following this

Executive Summary and Business Outlook.

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Total Company

Earnings: Our net income increased by $98 million in the first quarter of 2014, or 9%, to $1.2 billion, compared to $1.1 billion for the first quarter of 2013. Significant drivers of the increase in earnings in the first quarter of 2014 were (i) a decrease in provision for credit losses due to improved credit outlook; and (ii) pre-tax provision benefit of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million for continuing operations) to the provision for mortgage representation and warranty losses compared to pre-tax provision of $97 million in the first quarter 2013, partially offset by a decrease in net interest income attributable to lower average interest-earning assets.

Loans Held for Investment: Period-end loans held for investment decreased by $4.3 billion, or 2%, in the first quarter of 2014, to $192.9 billion as of March 31, 2014, from $197.2 billion as of December 31, 2013. The decrease was due to the expected continued run-off in our acquired home loans portfolio in our Consumer Banking business, seasonal decreases and run-off of certain credit card loans acquired in the 2012 U.S. card acquisition in our Credit Card business and small-ticket commercial real estate loans in our Commercial Banking business. This run-off was partially offset by continued strong auto loan originations in our Consumer Banking business, as well as commercial real estate loan growth in our Commercial Banking business.

Charge-off and Delinquency Statistics: Our net charge-off rate decreased by 28 basis points in the first quarter of 2014 to 1.92%, compared to 2.20% for the first quarter of 2013. The decrease in our reported net charge-offs and net charge-off rate were largely due to the improvement in delinquencies and run-off of portfolios with higher credit risk. Our reported 30+ day delinquency rate declined to 2.51% as of March 31, 2014, from 2.96% as of December 31, 2013, and 2.74% as of March 31, 2013. 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: We reduced our allowance by $217 million to $4.1 billion as of March 31, 2014, from $4.3 billion as of December 31, 2013. The decrease in the allowance was mainly due to an overall improved credit outlook coupled with improvements in delinquency inventories. The allowance coverage ratio declined to 2.12% as of March 31, 2014, from 2.19% as of December 31, 2013.

Representation and Warranty Reserve: The aggregate representation and warranty reserves decreased to $1.1 billion as of March 31, 2014, from $1.2 billion as of December 31, 2013. We recorded a total provision benefit to the provision for mortgage representation and warranty losses of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million in continuing operations) in the first quarter of 2014, which was primarily driven by updated legal assumptions.

Business Segment Financial Performance

Credit Card: Our Credit Card business generated net income from continuing operations of $668 million in the first quarter of 2014, compared with net income from continuing operations of $686 million in the first quarter of 2013. The decrease in net income was driven by a decrease in net interest income primarily due to lower average loans held for investment due to the Portfolio Sale, which was partially offset by a reduction in provision for loan losses. Period-end loans held for investment in our Credit Card business decreased by $5.4 billion to $75.9 billion as of March 31, 2014 from $81.3 billion as of December 31, 2013. The decrease was primarily due to expected seasonal decreases, as well as the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $330 million in the first quarter of 2014, compared with net income from continuing operations of $383 million in the first quarter of 2013. The decrease in net income is primarily attributable to net interest

margin compression in the Retail Banking and Auto businesses, and the expected continued run-off in our acquired home loans portfolio, partially offset by growth in auto loans. Period-end loans held for investment in our Consumer Banking business decreased by $35 million to $70.7 billion as of March 31, 2014, from $70.8 billion as of December 31, 2013, due to the expected continued run-off in our acquired home loans portfolio which was partially offset by strong auto loan originations.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $137 million in the first quarter of 2014, compared with net income from continuing operations of $193 million in the first quarter of 2013. The decrease in net income is primarily due to a higher provision for credit losses. We recorded a provision for credit losses of $40 million in the first quarter of 2014, compared to a benefit of $35 million in the first quarter of 2013. The increase in provision was partially offset by higher revenues due to growth in commercial real estate and commercial and industrial loans. Period-end loans held for investment in our Commercial Banking business increased by $1.2 billion, or 3%, to $46.2 billion as of March 31, 2014, from $45.0 billion as of December 31, 2013. The increase was driven by strong loan originations in the commercial and industrial and commercial real estate businesses, which was partially offset by the continued run-off of the small-ticket commercial real estate loan portfolio.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this 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 2013 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 Item 1A. Risk Factors in our 2013 Form 10-K for factors that could materially influence our results.

Total Company Expectations

We expect 2014 pre-provision earnings, excluding non-recurring items, of approximately $10 billion. In addition, we expect modest changes in the components of pre-provision earnings with higher revenue offsetting higher expenses. We expect card loans run-off of approximately $1 billion and home loans run-off of $5 billion in 2014. Actual results are expected to vary from these expectations within reasonable margins.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. The Federal Reserve did not object to our capital plan submitted on January 6, 2014. Pursuant to the capital plan, we expect to maintain our quarterly dividend of $0.30 per share, subject to approval by the Board of Directors. In addition, the Board of Directors has authorized the repurchase of up to $2.5 billion in shares of our common stock through the end of the first quarter of 2015.

The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, our capital position and amount of retained earnings. Our share repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See MD&A Capital Management Capital Planning and Regulatory Stress Testing for more information.

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Business Segment Expectations

Credit Card: We expect to return to year-over-year growth in Domestic Card in the second half of 2014, despite continuing run-off and other strategic choices we have made. We expect that our focus on resilience and strong credit risk underwriting will drive strong credit results, with normal seasonal patterns. Overall, we believe that our Domestic Card business continues to be well-positioned and will continue to deliver strong, sustainable and resilient returns and generate capital on a strong trajectory.

Consumer Banking: In our Consumer Banking business, we expect Auto credit losses will gradually increase from the historic lows of the past few years and Auto revenues, margins, and returns will decline, but remain resilient and within ranges that support an attractive business. In addition, we expect the impacts of the prolonged low interest rate environment to continue to pressure the economics of our Retail deposit businesses even if rates rise in 2014.

Commercial Banking: In our Commercial Banking business, we expect strong credit performance to continue in 2014. While increasing competition, particularly in generic middle-market lending, may continue to impact the pricing and volume of our new loan originations, we continue to expect our focused and specialized approach to deliver strong results in 2014.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the reported amount of assets, liabilities, income and expenses in the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under Note 1 Summary of Significant Accounting Policies in our 2013 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 reported 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
- Income taxes

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 2013 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Investments in Qualified Affordable Housing Projects

In January 2014, the FASB issued guidance permitting an entity to account for investments in qualified affordable housing projects using the proportional amortization method, if certain criteria are met. The proportional 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 taxes attributable to continuing operations. Historically, these investments were under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. Prior period results and related metrics have been recast. See Note 1 Summary of Significant Accounting Policies for more information.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the first quarter of 2014 and 2013. Following this section, we provide a discussion of our business segment results. You should read this section together with our Executive Summary and Business Outlook, where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income and applicable fees earned on our interest-earning assets, which include loans and investment securities, and the interest expense on our interest-bearing liabilities, which include interest-bearing deposits, senior and subordinated notes, securitized debt obligations and other borrowings. We include in interest income any past due fees on loans that we deem collectible. Our net interest margin based on our consolidated results represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the 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.

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Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for the first quarter of 2014 and 2013.

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

	Three Months Ended March 31,					
	2014			2013		
(Dollars in millions)	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate	Average Balance	Interest Income/ Expense[2][3]	Yield/ Rate
Assets:						
Interest-earning assets:						
Credit card:						
Domestic	**$ 69,800**	**$ 2,478**	**14.20%**	$ 78,985	$ 2,816	14.26%
International	**7,690**	**319**	**16.59**	8,238	329	15.97
Credit card	**77,490**	**2,797**	**14.44**	87,223	3,145	14.42
Consumer banking	**70,836**	**1,094**	**6.18**	74,456	1,102	5.92
Commercial banking	**45,561**	**395**	**3.47**	38,579	377	3.91
Other	**133**	**21**	**63.16**	183	25	54.64
Total loans, including loans held for sale	**194,020**	**4,307**	**8.88**	200,441	4,649	9.28
Investment securities[4]	**62,124**	**416**	**2.68**	64,798	374	2.31
Cash equivalents and other interest-earning assets	**6,515**	**30**	**1.84**	7,106	28	1.58
Total interest-earning assets	**$ 262,659**	**$ 4,753**	**7.24%**	$ 272,345	$ 5,051	7.42%
Cash and due from banks	**2,881**			2,642		
Allowance for loan and lease losses	**(4,306)**			(4,954)		
Premises and equipment, net	**3,838**			3,682		
Other assets	**29,203**			29,511		
Total assets	**$ 294,275**			$ 303,226		
Liabilities and stockholders equity:						
Interest-bearing liabilities:						
Deposits	**$ 184,183**	**$ 276**	**0.60%**	$ 190,612	$ 326	0.68%
Securitized debt obligations	**10,418**	**38**	**1.46**	11,758	56	1.91
Senior and subordinated notes	**14,162**	**77**	**2.17**	11,984	82	2.74
Other borrowings	**11,398**	**12**	**0.42**	17,832	17	0.38
Total interest-bearing liabilities	**$ 220,161**	**$ 403**	**0.73%**	$ 232,186	$ 481	0.83%
Non-interest bearing deposits	**21,659**			20,943		
Other liabilities	**9,596**			9,217		
Total liabilities	**251,416**			262,346		
Stockholders equity	**42,859**			40,880		
Total liabilities and stockholders equity	**$ 294,275**			$ 303,226		
Net interest income/spread		**$ 4,350**	**6.51%**		$ 4,570	6.59%

Impact of non-interest bearing funding	**0.11**	0.12
Net interest margin	**6.62%**	6.71%

(1) In the first quarter of 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.

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(2) Past due fees included in interest income totaled approximately $359 million and $480 million in the first quarter of 2014 and 2013, respectively.
(3) Interest income and interest expense and the calculation of average yields on interest-earning assets and average rates on interest-bearing liabilities include the impact of hedge accounting.
(4) Prior to the second quarter of 2013, average balances for investment securities were calculated based on fair value amounts. Effective in the second quarter of 2013, average balances are calculated based on the amortized cost of investment securities. The impact of this change on prior period yields is not material.

Net interest income of $4.4 billion in the first quarter of 2014 decreased by $220 million, or 5%, from the first quarter of 2013, primarily driven by decrease in average interest-earning assets and past due fees, partially offset by higher yields in investment securities and lower funding costs.

Average Interest-Earning Assets: The decrease in average interest-earning assets in the first quarter of 2014 compared to the first quarter of 2013 was driven by lower loan balances. The decrease in average loan balances is due to the Portfolio Sale in the third quarter of 2013, the continued expected run-off in our acquired home loans portfolio, within our Consumer Banking business and the expected continued run-off of receivables acquired in the 2012 U.S. card acquisition, which was partially offset by continued strong growth in commercial and auto loans. The decrease in average investment securities was due to sales and paydowns outpacing purchases.

Net Interest Margin: The decrease in our net interest margin in the first quarter of 2014 compared to the first quarter of 2013 is primarily due to lower yield on our commercial loan portfolio, which was partially offset by a reduction in our cost of funds. Our lowered cost of funds reflects the benefit from the mix of our funding in lower cost consumer and commercial banking deposits.

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

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

	Three Months Ended March 31, 2014 vs. 2013		
(Dollars in millions)	**Total Variance**	**Volume**	**Rate**
Interest income:			
Loans:			
Credit card	**$ (348)**	**$ (351)**	**$ 3**
Consumer banking	**(8)**	**(54)**	**46**
Commercial banking	**18**	**61**	**(43)**
Other	**(4)**	**(7)**	**3**
Total loans, including loans held for sale	**(342)**	**(351)**	**9**
Investment securities	**42**	**(15)**	**57**
Cash equivalents and other interest-earning assets	**2**	**(2)**	**4**
Total interest income	**(298)**	**(368)**	**70**
Interest expense:			
Deposits	**(50)**	**(11)**	**(39)**
Securitized debt obligations	**(18)**	**(6)**	**(12)**
Senior and subordinated notes	**(5)**	**12**	**(17)**
Other borrowings	**(5)**	**(6)**	**1**
Total interest expense	**(78)**	**(11)**	**(67)**
Net interest income	**$ (220)**	**$ (357)**	**$ 137**

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

Non-Interest Income

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

Table 5 displays the components of non-interest income for the first quarter of 2014 and 2013.

Table 5: Non-Interest Income

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Service charges and other customer-related fees	**$ 474**	$ 550
Interchange fees, net	**440**	445
Net other-than-temporary impairment	**(5)**	(25)
Other non-interest income:		
(Expense) benefit for mortgage representation and warranty[1]	**(14)**	9
Net gains from the sale of investment securities	**13**	2
Net fair value gains (losses) on free-standing derivatives[2]	**13**	(5)
Other	**99**	5
Total other non-interest income	**111**	11
Total non-interest income	**$ 1,020**	$ 981

(1) We recorded a total pre-tax provision benefit of $33 million (which includes a benefit of $47 million in discontinued operations and an expense of $14 million in continuing operations), and a total pre-tax provision of $97 million related to mortgage representation and warranty losses in the first quarter of 2014 and 2013, respectively.

(2) Excludes changes in cumulative credit risk valuation adjustments related to derivatives in a gain position. Credit risk valuation adjustments for derivative assets totaled $7 million as of both of March 31, 2014 and December 31, 2013. See Note 9 Derivative Instruments and Hedging Activities for additional information.

Non-interest income of $1.0 billion in the first quarter of 2014, increased by $39 million, or 4%, from $981 million in the first quarter of 2013. The main drivers were (i) a loss related to a debt exchange in 2013 which did not recur in 2014 and (ii) a reduction in net OTTI losses attributable to improved credit outlook. These were partially offset by (i) a reduction in service and customer-related fees related to the continued run-off of certain credit card loans and (ii) a provision for representation and warranty recorded in continuing operations in the first quarter of 2014 compared to a benefit in the first quarter of 2013.

Provision for Credit Losses

Our provision for credit losses in each period is driven by 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 $735 million in the first quarter of 2014, compared with $885 million in the first quarter of 2013.

The decrease in the provision for credit losses of $150 million in the first quarter of 2014 from the first quarter of 2013 was driven by lower charge-offs attributable to credit improvement of the underlying loan portfolio.

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We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses under the Credit Risk Profile Summary of Allowance for Loan and Lease Losses, 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 2013 Form 10-K.

Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing technology expenses and other miscellaneous expenses. Non-interest expense also includes marketing costs, merger-related expense and amortization of intangibles. Table 6 displays the components of non-interest expense for the first quarter of 2014 and 2013.

Table 6: Non-Interest Expense[1][2]

	Three Months Ended March 31,	
(Dollars in millions)	**2014**	**2013**
Salaries and associate benefits	**$ 1,161**	$ 1,095
Occupancy and equipment	**405**	357
Marketing	**325**	317
Professional services	**287**	322
Communications and data processing	**196**	216
Amortization of intangibles	**143**	177
Other non-interest expense:		
Collections	**99**	129
Fraud losses	**73**	52
Bankcard, regulatory and other fee assessments	**113**	138
Other	**130**	188
Other non-interest expense	**415**	507
Total non-interest expense	**$ 2,932**	$ 2,991

(1) In the first quarter of 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) Includes acquisition-related costs of $23 million and $46 million in the first quarter of 2014 and 2013, respectively. These amounts are comprised of transaction costs, legal and other professional or consulting fees, restructuring costs, and integration expense.

Non-interest expense of $2.9 billion in the first quarter of 2014, decreased by $59 million, or 2%, from the first quarter of 2013. The decrease reflects a reduction in acquisition-related costs and a decrease in amortization of intangibles attributable to the 2012 U.S card acquisition. These were partially offset by (i) higher operating expenses attributable to growth in our auto loan portfolio; (ii) the change to include auto repossession-related expenses as a component of operating expenses, prior to January 1, 2014 these costs were reported as a component of net charge-offs; and (iii) the growth in Commercial banking business.

Income Taxes

We recorded an income tax provision of $579 million (34.0% effective income tax rate) in the first quarter of 2014, compared to an income tax provision of $541 million (32.3% effective income tax rate) in the first quarter of 2013.

The increase in our effective income tax rate in the first quarter of 2014, from the first quarter of 2013 was primarily attributable to $28 million in discrete tax expense recorded in the first quarter of 2014 for certain state

tax law changes that required a reduction of deferred tax assets and adjustments for the resolution of certain tax issues and audits. In comparison, we recorded $6 million in net discrete tax benefits in the first quarter of 2013 for the adjustment of prior taxes paid, certain state tax rate reductions, and the resolution of certain tax issues and audits.

Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 32.4%, and 32.7% in the first quarter of 2014 and 2013, respectively. The decrease in the effective tax rate excluding discrete items was primarily due to the impact of increased amounts of tax credits and tax exempt income in the first quarter of 2014, over the first quarter of 2013.

We provide additional information on items affecting our income taxes and effective tax rate in our 2013 Form 10-K in Note 17 Income Taxes.

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 GreenPoint s wholesale mortgage banking unit that we closed in 2007.

Income from discontinued operations, net of tax, was $30 million as of the first quarter of 2014, compared to a loss of $78 million in the first quarter of 2013. We recorded a total pre-tax release of the mortgage representation and warranty reserve of $47 million ($30 million after taxes) and a pre-tax provision of $107 million ($67 million after taxes) in discontinued operations in the first quarter of 2014 and 2013, respectively.

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

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 2013 Form 10-K.

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

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Below we summarize our business segment results for the first quarter of 2014 and 2013 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance statistics as of March 31, 2014, compared with December 31, 2013. We provide a reconciliation of our total business segment results to our reported consolidated results in Note 13 Business Segments. We also 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 technology expenses, as well as marketing expenses. Rewards costs are generally netted against interchange fees.

Net income from continuing operations in our Credit Card business decreased by $18 million, or 3%, to $668 million in the first quarter of 2014, from $686 million in the first quarter of 2013.

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

Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest income	**$ 2,525**	$ 2,830	**(11)%**
Non-interest income	**785**	821	**(4)**
Total net revenue[1]	**3,310**	3,651	**(9)**
Provision for credit losses	**558**	743	**(25)**
Non-interest expense	**1,726**	1,848	**(7)**
Income from continuing operations before income taxes	**1,026**	1,060	**(3)**
Income tax provision	**358**	374	**(4)**
Income from continuing operations, net of tax	**$ 668**	$ 686	**(3)%**
Selected performance metrics:			
Average loans held for investment[2]	**$ 77,502**	$ 82,952	**(7)%**
Average yield on loans held for investment[3]	**14.43%**	15.16%	**(73)bps**
Total net revenue margin[4]	**17.08**	17.61	**(53)**
Net charge-offs	**$ 780**	$ 922	**(15)%**
Net charge-off rate	**4.02%**	4.45%	**(43)bps**
Card loan premium amortization and other intangible accretion[5]	**$ 37**	$ 57	**(35)%**
PCCR intangible amortization	**98**	116	**(16)**
Purchase volume[6]	**47,434**	45,098	**5**

(Dollars in millions)	March 31, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment[2]	**$ 75,850**	$ 81,305	**(7)%**
30+ day performing delinquency rate	**3.08%**	3.46%	**(38)bps**
30+ day delinquency rate	**3.16**	3.54	**(38)**
Nonperforming loan rate[7]	**0.11**	0.11	**
Allowance for loan and lease losses	**$ 2,984**	$ 3,214	**(7)%**
Allowance coverage ratio[8]	**3.93%**	3.95%	**(2)bps**

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

(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 $163 million and $265 million in the first quarter of 2014 and 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $174 million and $190 million as of March 31, 2014 and December 31, 2013, respectively.

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

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

(4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Annualized interest income also includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Total Credit Card business of 112 basis points in the first quarter of 2013.

(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 nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming credit card loans generally include International Card loans that are 90 or 120 days delinquent.

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

Key factors affecting the results of our Credit Card business for the first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $305 million, or 11%, in the first quarter of 2014, to $2.5 billion from $2.8 billion in the first quarter of 2013. The decrease in net interest income is primarily driven by (i) the decrease in average loans held for investment due to the Portfolio Sale in 2013 and the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition and (ii) the decrease in past due fees is attributable to the Portfolio Sale in 2013 and the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Non-Interest Income: Non-interest income decreased by $36 million, or 4%, in the first quarter of 2014, to $785 million from $821 million in the first quarter of 2013. The decrease was primarily driven by a smaller portfolio, resulting in a reduction in customer fees.

Provision for Credit Losses: The provision for credit losses related to our Credit Card business decreased by $185 million, or 25%, to $558 million in the first quarter of 2014, from $743 million in the first quarter of 2013. The decrease was driven by lower charge-offs attributable to credit improvement of the underlying loan portfolio in the first quarter of 2014.

Non-Interest Expense: Non-interest expense decreased by $122 million, or 7%, in the first quarter of 2014, to $1.7 billion from $1.8 billion in the first quarter of 2013. The decrease was largely due to lower acquisition-related costs and lower operating expenses due to the Portfolio Sale, as well as operating efficiencies. This includes PCCR intangible amortization of $98 million in the first quarter of 2014, compared with $116 million in the first quarter of 2013.

Loans Held for Investment: Period-end loans held for investment in our Credit Card business decreased by $5.4 billion, or 7%, to $75.9 billion as of March 31, 2014, from $81.3 billion as of December 31, 2013. The decrease was due to expected seasonal decreases, as well as the expected continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

Charge-off and Delinquency Statistics: Our reported net charge-off rate decreased to 4.02% in the first quarter of 2014, from 4.45% in the first quarter of 2013. The decrease were largely due to continued economic improvement, portfolio seasoning, and run-off of certain credit

card loans acquired in the 2012 U.S. card acquisition. The 30+ day delinquency rate decreased to 3.16% as of March 31, 2014, from 3.54% as of December 31, 2013.

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Domestic Card Business

Domestic Card generated net income from continuing operations of $595 million in the first quarter of 2014, a decrease of $49 million, or 8%, compared with net income from continuing operations of $644 million in the first quarter of 2013. Domestic Card accounted for 89% of total net revenues for our Credit Card business in the first quarter of 2014, compared with 90% in the first quarter of 2013.

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

Table 7.1: Domestic Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2014**	**2013**	**Change**
Selected income statement data:			
Net interest income	**$ 2,255**	$ 2,556	**(12)%**
Non-interest income	**702**	724	**(3)**
Total net revenue	**2,957**	3,280	**(10)**
Provision for credit losses	**486**	647	**(25)**
Non-interest expense	**1,545**	1,633	**(5)**
Income from continuing operations before income taxes	**926**	1,000	**(7)**
Income tax provision	**331**	356	**(7)**
Income from continuing operations, net of tax	**$ 595**	$ 644	**(8)%**
Selected performance metrics:			
Average loans held for investment[1]	**$ 69,810**	$ 74,714	**(7)%**
Average yield on loans held for investment[2]	**14.19%**	15.07%	**(88)bps**
Total net revenue margin[3]	**16.94**	17.56	**(62)**
Net charge-offs	**$ 700**	$ 827	**(15)%**
Net charge-off rate	**4.01%**	4.43%	**(42)bps**
Card loan premium amortization and other intangible accretion[4]	**$ 37**	$ 57	**(35)%**
PCCR intangible amortization	**98**	116	**(16)**
Purchase volume[5]	**44,139**	41,831	**6**

(Dollars in millions)	**March 31, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[1]	**$ 68,275**	$ 73,255	**(7)%**
30+ day delinquency rate	**3.02%**	3.43%	**(41)bps**
Allowance for loan and lease losses	**$ 2,622**	$ 2,836	**(8)%**
Allowance coverage ratio[6]	**3.84%**	3.87%	**(3)bps**

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

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

(3) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Annualized interest income includes interest income on loans held for sale. The transfer of Best Buy loan portfolio from loans held for investment to loans held for sale resulted in an increase in the net revenue margin for the Domestic Card business of 123 basis points in the first quarter of 2013.

(4) 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.

(5)

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.

(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.

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Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results for this division are similar to the key factors affecting our total Credit Card business. The primary drivers of the decline in net income for our Domestic Card business in the first quarter of 2014, compared with the first quarter of 2013 were declines in revenue primarily driven by the decrease in average loans held for investment due to the Portfolio Sale in 2013, partially offset by lower provision for loan and lease losses, and operating expenses associated with the reduction in the portfolio size.

The decrease in period-end loans held for investment was due to the expected seasonal decreases and continued run-off of certain credit card loans acquired in the 2012 U.S. card acquisition.

International Card Business

International Card generated net income from continuing operations of $73 million in the first quarter of 2014, an increase of $31 million, or 74%, compared with net income from continuing operations of $42 million in the first quarter of 2013. International Card accounted for 11% of total net revenues for our Credit Card business in the first quarter of 2014, compared with 10% in the first quarter of 2013.

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

Table 7.2: International Card Business Results

	Three Months Ended March 31,		
(Dollars in millions)	**2014**	**2013**	**Change**
Selected income statement data:			
Net interest income	**$ 270**	$ 274	**(1)%**
Non-interest income	**83**	97	**(14)**
Total net revenue	**353**	371	**(5)**
Provision for credit losses	**72**	96	**(25)**
Non-interest expense	**181**	215	**(16)**
Income from continuing operations before income taxes	**100**	60	**67**
Income tax provision	**27**	18	**50**
Income from continuing operations, net of tax	**$ 73**	$ 42	**74%**
Selected performance metrics:			
Average loans held for investment[1]	**$ 7,692**	$ 8,238	**(7)%**
Average yield on loans held for investment[2]	**16.64%**	15.97%	**67bps**
Total net revenue margin[3]	**18.38**	18.01	**37**
Net charge-offs	**$ 80**	$ 95	**(16)%**
Net charge-off rate	**4.17%**	4.59%	**(42)bps**
Purchase volume[4]	**$ 3,295**	$ 3,267	**1%**

(Dollars in millions)	**March 31, 2014**	**December 31, 2013**	**Change**
Selected period-end data:			
Loans held for investment[1]	**$ 7,575**	$ 8,050	**(6)%**
30+ day performing delinquency rate	**3.59%**	3.71%	**(12)bps**
30+ day delinquency rate	**4.41**	4.56	**(15)**
Nonperforming loan rate[5]	**1.07**	1.10	**(3)**
Allowance for loan and lease losses	**$ 362**	$ 378	**(4)%**
Allowance coverage ratio[6]	**4.77%**	4.70%	**7bps**

[1] Credit card period-end loans held for investment and average loans held for investment include accrued finance charges and fees, net of the uncollectible amount.
[2] Calculated by dividing annualized interest income for the period by average loans held for investment during the period.
[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 nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming credit card loans include International Card loans that are generally 90 or 120 days delinquent.
[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.

The primary drivers of the improvement in results for our International Card business in the first quarter of 2014, compared with the first quarter of 2013, included: (i) a reduction in non-interest expense resulting from operating efficiencies and timing of spend; and (ii) a reduction in the provision for credit losses attributable to lower net charge-offs, reflecting the improvement in the credit environment in Canada and the U.K. These were partially offset by a reduction in revenue driven by lower average loans held for investments.

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 customer fees. Expenses primarily consist of the provision for credit losses, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

Our Consumer Banking business generated net income from continuing operations of $330 million in the first quarter of 2014, compared with net income from continuing operations of $383 million in the first quarter of 2013.

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

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Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest income	**$ 1,433**	$ 1,478	**(3)%**
Non-interest income	**150**	181	**(17)**
Total net revenue	**1,583**	1,659	**(5)**
Provision for credit losses	**140**	175	**(20)**
Non-interest expense	**930**	890	**4**
Income from continuing operations before income taxes	**513**	594	**(14)**
Income tax provision	**183**	211	**(13)**
Income from continuing operations, net of tax	**$ 330**	$ 383	**(14)%**
Selected performance metrics:			
Average loans held for investment:[1]			
Auto	**$ 32,387**	$ 27,477	**18%**
Home loan	**34,646**	43,023	**(19)**
Retail banking	**3,630**	3,786	**(4)**
Total consumer banking	**$ 70,663**	$ 74,286	**(5)%**
Average yield on loans held for investment[2]	**6.18%**	5.93%	**25bps**
Average deposits	**$ 168,676**	$ 171,089	**(1)%**
Average deposit interest rate	**0.57%**	0.64%	**(7)bps**
Core deposit intangible amortization	**$ 30**	$ 37	**(19)%**
Net charge-offs	**148**	143	**3**
Net charge-off rate	**0.84%**	0.78%	**6bps**
Net charge-off rate (excluding Acquired Loans)	**1.37**	1.47	**(10)**
Auto loan originations	**$ 4,727**	$ 3,789	**25%**

(Dollars in millions)	March 31, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment:[1]			
Auto	**$ 33,080**	$ 31,857	**4%**
Home loan	**34,035**	35,282	**(4)**
Retail banking	**3,612**	3,623	**
Total consumer banking	**$ 70,727**	$ 70,762	**%**
30+ day performing delinquency rate	**2.57%**	3.20%	**(63)bps**
30+ day performing delinquency rate (excluding Acquired Loans)[3]	**4.17**	5.32	**(115)**
30+ day delinquency rate	**3.14**	3.89	**(75)**
30+ day delinquency rate (excluding Acquired Loans)[3]	**5.09**	6.47	**(138)**
Nonperforming loans rate[4]	**0.74**	0.86	**(12)**
Nonperforming loans rate (excluding Acquired Loans)[3]	**1.20**	1.44	**(24)**
Nonperforming asset rate[5]	**1.00**	1.12	**(12)**
Nonperforming asset rate (excluding Acquired Loans)[3]	**1.62**	1.86	**(24)**
Allowance for loan and lease losses	**$ 744**	$ 752	**(1)%**
Allowance coverage ratio[6]	**1.05%**	1.06%	**(1)bps**
Deposits	**$ 171,529**	$ 167,652	**2%**

Loans serviced for others	**6,868**	7,665	**(10)**

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

(1) Includes Acquired Loans with carrying value of $27.1 billion and $28.2 billion as of March 31, 2014 and December 31, 2013, respectively. The average balance of Consumer Banking loans held for investment, excluding Acquired Loans, was $43.2 billion and $39.2 billion in the first quarter of 2014 and 2013, respectively.

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

(3) Calculation of ratio adjusted to exclude impact from Acquired Loans. See Credit Risk Profile and Note 4 Loans for additional information on the impact of Acquired Loans on our credit quality metrics.

(4) Calculated by dividing nonperforming loans as of the end of the period by period-end loans held for investment. Nonperforming loans generally include loans that have been placed on nonaccrual status and certain restructured loans whose contractual terms have been restructured in a manner that grants a concession to a borrower experiencing financial difficulty.

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

(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 first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income decreased by $45 million, or 3%, in the first quarter of 2014, to $1.4 billion from $1.5 billion in the first quarter of 2013. The decrease in net interest income is primarily attributable to compression in deposit spreads in the Retail Banking business and decrease in home loans held for investment, partially offset by higher net interest income generated by growth in auto loans held for investment.

Consumer Banking yields increased in the first quarter of 2014, to 6.2% as compared to 5.9% in the first quarter of 2013. This increase is driven by changes in mix towards higher yield auto loans driven by growth in auto and the continued run-off of the acquired home loans portfolio. While the shift to auto loans drove an increase in the total Consumer Banking yield, the average yield on auto loans decreased to 9.0% in the first quarter of 2014 as compared to 10.1% in the first quarter of 2013. This decrease is primarily attributable to a shift in the credit quality mix of our auto loan portfolio and increased competition in Auto business. The average yield on home loans was 3.7% in the first quarter of 2014 compared to 3.3% in the first quarter of 2013. The higher yield in home loans is driven by an increase in expected cash flows as a result of credit improvement on the acquired portfolios.

Non-Interest Income: Non-interest income decreased by $31 million, or 17%, in the first quarter of 2014, to $150 million from $181 million in the first quarter of 2013, primarily driven by higher provision for representation and warranty for our home loans portfolio related to our continuing operations.

Provision for Credit Losses: The provision for credit losses decreased by $35 million or 20% in the first quarter of 2014, to $140 million from $175 million in the first quarter of 2013, driven primarily by a lower allowance build in our Auto business.

Non-Interest Expense: Non-interest expense increased by $40 million, or 4%, in the first quarter of 2014, to $930 million from $890 million in the first quarter of 2013. The increase was largely due to the growth in our auto loan portfolio and the change to include the auto repossession-related expenses as a component of operating expenses. Prior to January 1, 2014 these costs were reported as a component of net charge-offs.

Loans Held for Investment: Period-end loans in the Consumer Banking business was flat in the first quarter of 2014 compared to December 31, 2013, primarily due to the expected continued run-off of our acquired home loan portfolio, offset by growth in the auto portfolio.

Deposits: Period-end deposits in our Consumer Banking business increased by $3.8 billion, or 2%, to $171.5 billion as of March 31, 2014, from $167.7 billion as of December 31, 2013, primarily driven by typical seasonality of deposits reflected in strong deposit growth in

Retail Banking.

Charge-off and Delinquency Statistics: The reported net charge-off rate increased by 6 basis points to 0.84% in the first quarter of 2014, from 0.78% in the first quarter of 2013. The 30+ day delinquency rate decreased

by 75 basis points to 3.14% as of March 31, 2014, from 3.89% as of December 31, 2013. The increase in the net charge-off rate and decrease in 30+ delinquency rate reflects a mix shift towards auto, which carries higher charge-off rates than our home loans portfolio.

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. 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, ongoing operating costs, such as salaries and associate benefits, occupancy and equipment, professional services, communications and data processing technology expenses, as well as marketing expenses.

On November 1, 2013, we acquired Beech Street Capital, a privately-held, national originator and servicer of Fannie Mae, Freddie Mac and FHA multifamily commercial real estate loans. Beech Street Capital results are reported within the Commercial Banking business.

On January 1, 2014, we adopted the proportional amortization method of accounting for Investments in Qualified Affordable Housing Projects. The proportional amortization method amortizes the cost of the investment over the period in which we will receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income taxes attributable to continuing operations. Historically, these investments were accounted for under the equity method of accounting and the passive losses related to the investments were recognized within non-interest expense. See Note 1 Summary of Significant Accounting Policies for more information.

Our Commercial Banking business generated net income from continuing operations of $137 million in the first quarter of 2014, compared with net income from continuing operations of $193 million in the first quarter of 2013.

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

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Table 9: Commercial Banking Business Results[1]

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest income	**$ 421**	$ 401	**5%**
Non-interest income	**87**	84	**4**
Total net revenue	**508**	485	**5**
Provision (benefit) for credit losses	**40**	(35)	**214**
Non-interest expense	**255**	221	**15**
Income from continuing operations before income taxes	**213**	299	**(29)**
Income tax provision	**76**	106	**(28)**
Income from continuing operations, net of tax	**$ 137**	$ 193	**(29)%**
Selected performance metrics:			
Average loans held for investment:[2]			
Commercial and multifamily real estate	**$ 20,962**	$ 17,454	**20%**
Commercial and industrial	**23,541**	19,949	**18**
Total commercial lending	**44,503**	37,403	**19**
Small-ticket commercial real estate	**932**	1,173	**(21)**
Total commercial banking	**$ 45,435**	$ 38,576	**18%**
Average yield on loans held for investment[3]	**3.47%**	3.91%	**(44)bps**
Average deposits	**$ 31,627**	$ 30,335	**4%**
Average deposit interest rate	**0.25%**	0.28%	**(3)bps**
Core deposit intangible amortization	**$ 6**	$ 7	**(14)%**
Net charge-offs	**4**	7	**(43)**
Net charge-off rate	**0.04%**	0.07%	**(3)bps**

(Dollars in millions)	March 31, 2014	December 31, 2013	Change
Selected period-end data:			
Loans held for investment[2]:			
Commercial and multifamily real estate	**$ 21,256**	$ 20,750	**2%**
Commercial and industrial	**24,064**	23,309	**3**
Total commercial lending	**45,320**	44,059	**3**
Small-ticket commercial real estate	**910**	952	**(4)**
Total commercial banking	**$ 46,230**	$ 45,011	**3%**
Nonperforming loans rate	**0.33%**	0.33%	****bps**
Nonperforming asset rate[4]	**0.36**	0.37	**(1)**
Allowance for loan and lease losses	**$ 362**	$ 338	**7%**
Allowance coverage ratio[5]	**0.78%**	0.75%	**3bps**
Deposits	**$ 31,485**	$ 30,567	**3%**
Loans serviced for others	**11,073**	10,786	**3**

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

(1) In the first quarter of 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) Includes Acquired Loans with carrying value of $224 million and $262 million as of March 31, 2014 and December 31, 2013, respectively. The average balance of commercial banking loans held for investment, excluding Acquired Loans, was $45.2 billion and $38.2 billion in the first quarter of 2014 and 2013, respectively.

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period.

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

Key factors affecting the results of our Commercial Banking business for the first quarter of 2014, compared with the first quarter of 2013, and changes in financial condition and credit performance between March 31, 2014 and December 31, 2013 include the following:

Net Interest Income: Net interest income increased by $20 million, or 5%, in the first quarter of 2014, to $421 million from $401 million in the first quarter of 2013. The increase was driven by growth in commercial loans and higher deposit balances, partially offset by lower loan yields driven by market and competitive pressures.

Non-Interest Income: Non-interest income increased by $3 million, or 4%, in the first quarter of 2014, to $87 million, from $84 million in the first quarter of 2013, driven by increased revenue related to fee-based products and services from the Beech Street Capital acquisition, partially offset by other one-time items.

Provision for Credit Losses: Provision for credit losses increased by $75 million, in the first quarter of 2014, to $40 million, from a benefit of $35 million in the first quarter of 2013, primarily related to growth in the portfolio. The increase in allowance for loan and lease losses and reserve for unfunded lending commitments was $36 million in the first quarter of 2014, compared with a release of $41 million in the first quarter of 2013.

Non-Interest Expense: Non-interest expense increased by $34 million, or 15%, in the first quarter of 2014, to $255 million, from $221 million in the first quarter of 2013, driven by operating expenses associated with continued investments in business growth and Beech Street Capital.

Loans Held for Investment: Period-end loans held for investment in our Commercial Banking business increased by $1.2 billion, or 3%, to $46.2 billion as of March 31, 2014, from $45.0 billion as of December 31, 2013. The increase was driven by strong loan growth in the commercial and industrial and commercial real estate business.

Deposits: Period-end deposits in the Commercial Banking business increased by $918 million, or 3%, to $31.5 billion as of March 31, 2014, from $30.6 billion as of December 31, 2013, driven by typical seasonality and our strategy to deepen and expand relationships with commercial customers.

Charge-off Statistics: The net charge-off rate was 0.04% in the first quarter of 2014, compared to 0.07% in the first quarter of 2013. The nonperforming loan rate remained unchanged at 0.33% both as of March 31, 2014 and December 31, 2013. The continued strength in the credit metrics in our Commercial Banking business reflected stable credit trends and underlying collateral values.

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 trading activities are included in the Other category. The Other category also includes foreign exchange-rate fluctuations related to the revaluation of foreign currency-denominated investments; certain gains and losses on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges; a portion of the provision for representation and warranty reserves related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Net loss from continuing operations decreased by $117 million, or 91%, in the first quarter of 2014 to $11 million from $128 million in the first quarter of 2013. The decrease was primarily due to higher net interest income driven by higher interest rates, lower funding costs, continued

run-off of higher rate brokered deposits, as well as the absence of the one-time charge associated with our redemption of trust preferred securities in January 2013.

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

Table 10: Other Results[1]

(Dollars in millions)	Three Months Ended March 31, 2014	2013	Change
Selected income statement data:			
Net interest expense[2]	**$ (29)**	$ (139)	**79%**
Non-interest income	**(2)**	(105)	**98**
Total net revenue	**(31)**	(244)	**87**
Provision (benefit) for credit losses	**(3)**	2	**(250)**
Non-interest expense	**21**	32	**(34)**
Loss from continuing operations before income taxes	**(49)**	(278)	**82**
Income tax benefit	**(38)**	(150)	**75**
Loss from continuing operations, net of tax	**$ (11)**	$ (128)	**91%**

(1) In the first quarter of 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) 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%.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets of $290.5 billion as of March 31, 2014 decreased by $6.4 billion, or 2%, from $296.9 billion as of December 31, 2013. Total liabilities of $247.7 billion as of March 31, 2014, decreased by $7.6 billion, or 3%, from $255.3 billion as of December 31, 2013. Stockholders equity increased by $1.2 billion to $42.8 billion as of March 31, 2014. The increase in stockholders equity was primarily attributable to our net income of $1.2 billion for the first quarter of 2014.

Following is a discussion of material changes in the major components of our assets and liabilities during the first quarter of 2014. 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 debt, U.S. agency debt and corporate debt securities guaranteed by U.S. government agencies (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 78% and 77% of our total investment securities portfolio as of March 31, 2014 and December 31, 2013, respectively.

Our investment portfolio includes securities available for sale as well as 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. We report securities available for sale in our consolidated balance sheets at fair value with unrealized gains and losses recorded, net of tax, as a component of accumulated

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other comprehensive income (AOCI). We report securities held to maturity on our consolidated balance sheets at carrying value. Carrying value generally consists of amortized cost. For securities transferred from available for sale to held to maturity, carrying value also includes unrealized gains and losses recognized in AOCI at the date of transfer. Such unrealized gains or losses are accreted over the remaining life of the security with no impact on future net income.

During the first quarter of 2014, the fair value of our investment portfolio increased by $199 million, or 3% from $61.0 billion as of December 31, 2013 to $61.2 billion as of March 31, 2014. This increase was primarily driven by lower interest rates.

We had gross unrealized gains of $855 million and gross unrealized losses of $458 million on available-for sale investment securities as of March 31, 2014, compared with gross unrealized gains of $799 million and gross unrealized losses of $631 million as of December 31, 2013. The decrease in gross unrealized losses in the first quarter of 2014 was primarily driven by the lower interest rates in the first quarter of 2014. Of the $458 million in gross unrealized losses as of March 31, 2014, $86 million was related to securities that had been in a loss position for more than 12 months.

Table 11 presents the amortized cost, carrying value and fair value for the major categories of our portfolio of investment securities as of March 31, 2014 and December 31, 2013.

Table 11: Investment Securities

	March 31, 2014		December 31, 2013	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale				
U.S. Treasury debt obligations	**$ 827**	**$ 829**	$ 831	$ 833
U.S. Agency debt obligations	**1**	**1**	1	1
Corporate debt securities guaranteed by U.S. government agencies	**1,147**	**1,113**	1,282	1,234
RMBS:				
Agency	**21,241**	**21,245**	21,572	21,479
Non-agency	**3,070**	**3,561**	3,165	3,600
Total RMBS	**24,311**	**24,806**	24,737	25,079
CMBS:				
Agency	**4,131**	**4,075**	4,262	4,198
Non-agency	**1,879**	**1,855**	1,854	1,808
Total CMBS	**6,010**	**5,930**	6,116	6,006
Other ABS[1]	**6,577**	**6,606**	7,123	7,136
Other securities[2]	**1,451**	**1,436**	1,542	1,511
Total investment securities available for sale	**$ 40,324**	**$ 40,721**	$ 41,632	$ 41,800
(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity				
Agency RMBS	**$ 18,313**	**$ 18,591**	$ 17,443	$ 17,485
Agency CMBS	**1,837**	**1,872**	1,689	1,700
Total investment securities held to maturity	**$ 20,150**	**$ 20,463**	$ 19,132	$ 19,185

(1) ABS collateralized by credit card loans constituted approximately 67% and 65% of the other ABS portfolio as of March 31, 2014, and December 31, 2013, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 13% and 15% of the other ABS portfolio as of March 31, 2014 and December 31, 2013, respectively. Approximately 88% of the securities in our other asset-backed security portfolio were rated AAA or its equivalent as of March 31, 2014, compared with 87% as of December 31, 2013.

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

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

Credit Ratings

Our portfolio of investment securities 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 other government sponsored enterprises or agencies. Approximately 91% and 92% of our total investment securities portfolio was rated AA+ or its equivalent, or better as of March 31, 2014 and December 31, 2013, respectively, while approximately 6% and 5% was below investment grade as of March 31, 2014 and December 31, 2013, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the rating agencies: Standard & Poor s Ratings Services (S&P), Moody s Investors Service (Moody s) and Fitch Ratings (Fitch).

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other asset-backed securities and other securities in our portfolio as of March 31, 2014 and December 31, 2013.

Table 12: Non-Agency Investment Securities Credit Ratings

	March 31, 2014				December 31, 2013			
(Dollars in millions)	**Amortized Cost**	**AAA**	**Other Investment Grade**	**Below Investment Grade or Not Rated**	**Amortized Cost**	**AAA**	**Other Investment Grade**	**Below Investment Grade or Not Rated**