PFSWEB INC
Form SC 13G
February 12, 2015

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

SCHEDULE 13G

Under the Securities Exchange Act of 1934

PFSweb, Inc.

(Name of Issuer)

common stock, $0.001 par value

(Title of Class of Securities)

717098206

(CUSIP Number)

March 18, 2014

(Date of Event Which Requires Filing of this Statement)

Check the appropriate box to designate the rule pursuant to which this Schedule is filed:

[X] Rule 13d-1(b)

[_] Rule 13d-1(c)

[_] Rule 13d-1(d)

*The remainder of this cover page shall be filled out for a reporting person's initial filing on this form with respect to the subject class of securities, and for any subsequent amendment containing information which would alter the disclosures provided in a prior cover page.

The information required in the remainder of this cover page shall not be deemed to be "filed" for the purpose of Section 18 of the Securities Exchange Act of 1934 ("Act") or otherwise subject to the liabilities of that section of the Act but shall be subject to all other provisions of the Act (however, see the Notes).

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(1) NAMES OF REPORTING PERSONS.
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (entities only).

Renaissance Technologies LLC 26-0385758

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS):
(a) [_]

(b) [_]

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	(5) SOLE VOTING POWER 910,939
	(6) SHARED VOTING POWER 0
	(7) SOLE DISPOSITIVE POWER 932,609
	(8) SHARED DISPOSITIVE POWER 4,829

(9) AGGREGATE AMOUNT BENEFICIALLY OWNED BY EACH REPORTING PERSON

937,438

(10) CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)

[_]

(11) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.56 %

(12) TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)
IA

CUSIP NO. 717098206 13G Page 3 of 8 Pages

(1) NAMES OF REPORTING PERSONS.
I.R.S. IDENTIFICATION NOS. OF ABOVE PERSONS (ENTITIES ONLY).

RENAISSANCE TECHNOLOGIES HOLDINGS CORPORATION 13-3127734

(2) CHECK THE APPROPRIATE BOX IF A MEMBER OF A GROUP (SEE INSTRUCTIONS)
(a) [_]
(b) [_]

(3) SEC USE ONLY

(4) CITIZENSHIP OR PLACE OF ORGANIZATION

Delaware

NUMBER OF SHARES BENEFICIALLY OWNED BY EACH REPORTING PERSON WITH:	
	(5) SOLE VOTING POWER 910,939
	(6) SHARED VOTING POWER 0
	(7) SOLE DISPOSITIVE POWER 932,609
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937,438

(10) CHECK BOX IF THE AGGREGATE AMOUNT IN ROW (9) EXCLUDES CERTAIN SHARES (SEE INSTRUCTIONS)
[_]

(11) PERCENT OF CLASS REPRESENTED BY AMOUNT IN ROW (9)

5.56 %

(12) TYPE OF REPORTING PERSON (SEE INSTRUCTIONS)
HC

Item 1.

(a) Name of Issuer

PFSweb, Inc.

(b) Address of Issuer's Principal Executive Offices.

505 Millennium Drive, Allen, Texas 75013

Item 2.

(a) Name of Person Filing:

This Schedule 13G is being filed by Renaissance Technologies LLC ("RTC") and Renaissance Technologies Holdings Corporation ("RTHC").

(b) Address of Principal Business Office or, if none, Residence.

The principal business address of the reporting persons is:

800 Third Avenue
New York, New York 10022

(c) Citizenship.

RTC is a Delaware limited liability company, and
RTHC is a Delaware corporation.

(d) Title of Class of Securities.

common stock, $0.001 par value

(e) CUSIP Number.

717098206

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Item 3. If this statement is filed pursuant to Rule 13d-1(b) or 13-d-2(b) or (c),check whether the person filing is a:

(a) [_] Broker or dealer registered under section 15 of the Act.
(b) [_] Bank as defined in section 3(a)(6) of the Act.
(c) [_] Insurance Company as defined in section 3(a)(19) of the Act.
(d) [_] Investment Company registered under section 8 of the Investment Company Act.
(e) [x] Investment Adviser in accordance with Sec.240.13d-1(b)(1)(ii)(E).
(f) [_] Employee Benefit Plan or Endowment Fund in accordance with Sec. 240.13d-1(b)(1)(ii)(F).
(g) [_] Parent holding company, in accordance with Sec.240.13d-1(b)(1)(ii)(G).
(h) [_] A savings associations as defined in Section 3(b) of the Federal Deposit Insurance Act.
(i) [_] A church plan that is excluded from the definition of an investment company under section 3(c)(14) of the Investment Company Act of 1940.
(j) [_] Group, in accordance with Sec.240.13d-1(b)(1)(ii)(J).

Item 4. Ownership.

(a) Amount beneficially owned.

RTC: 937,438 shares
RTHC: 937,438 shares, comprising the shares beneficially owned by RTHC, because of RTHC's majority ownership of RTC.

(b) Percent of Class.

RTC: 5.56 %
RTHC: 5.56 %

(c) Number of shares as to which the person has:

(i) sole power to vote or to direct the vote:

RTC: 910,939
RTHC: 910,939

(ii) Shared power to vote or to direct the vote: 0

(iii) sole power to dispose or to direct the disposition of:

RTC: 932,609
RTHC: 932,609

(iv) Shared power to dispose or to direct the disposition of:

RTC: 4,829
RTHC: 4,829

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Item 5. Ownership of Five Percent or Less of a Class.

If this statement is being filed to report the fact that as of the date hereof the reporting person has ceased to be the beneficial owner of more than five percent of the class of securities, check the following: [_]

Item 6. Ownership of More than Five Percent on Behalf of Another Person.

Certain funds and accounts managed by RTC have the right to receive dividends and proceeds from the sale of the securities which are the subject of this report.

Item 7. Identification and Classification of the Subsidiary Which Acquired the Security Being Reported on by the Parent Holding Company.

Not applicable

Item 8. Identification and Classification of Members of the Group.

Not applicable

Item 9. Notice of Dissolution of a Group.

Not applicable

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Item 10. Certification

By signing below I certify that, to the best of my knowledge and belief, the securities referred to above were acquired and are held in the ordinary course of business and not acquired and are not held for the purpose of or with the effect of changing or influencing the control of the issuer of the securities and were not acquired and are not held in connection with or as a participant in any transaction having that purpose or effect.

SIGNATURE

After reasonable inquiry and to the best of my knowledge and belief, I certify that the information set forth in this statement is true, complete and correct.

Date: February 12, 2015

Renaissance Technologies LLC

By: Mark Silber
Executive Vice President

Renaissance Technologies Holdings Corporation

By: Mark Silber
Vice President

Attention: Intentional misstatements or omissions of fact constitute
Federal criminal violations (See 18 U.S.C. 1001).

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EXHIBIT 99.1

AGREEMENT REGARDING JOINT FILING

UNDER RULE 13D-1(K) OF THE EXCHANGE ACT

In accordance with Rule 13d-1(k) under the Securities Exchange Act of 1934,
as amended, each of the undersigned agrees to the filing on behalf of each
of a Statement on Schedule 13G, and all amendments thereto, with respect to
the shares of common stock, $0.001 par value of
PFSweb, Inc.

Date: February 12, 2015

Renaissance Technologies LLC

By: Mark Silber
Executive Vice President

Renaissance Technologies Holdings Corporation

By: Mark Silber
Vice President

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Total	$ 7,156	33.2 %	$ 14,428	66.8 %	$ 21,584	100.0 %

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

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Loan Maturity Profile

Table 19 presents the maturities of our loans held for investment portfolio as of December 31, 2017.

Table 19: Loan Maturity Schedule

	December 31, 2017			
(Dollars in millions)	Due Up to 1 Year	> 1 Year to 5 Years	> 5 Years	Total
Fixed rate:				
Credit card[1]	$987	$ 15,593	—	$16,580
Consumer banking	683	34,554	$ 26,129	61,366
Commercial banking	1,173	5,804	7,702	14,679
Other	—	1	12	13
Total fixed-rate loans	2,843	55,952	33,843	92,638
Variable rate:				
Credit card[1]	98,181	1	—	98,182
Consumer banking[2]	9,193	3,755	764	13,712
Commercial banking	49,430	414	52	49,896
Other	37	—	8	45
Total variable-rate loans	156,841	4,170	824	161,835
Total loans	$159,684	$ 60,122	$ 34,667	$254,473

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(1) Due to the revolving nature of credit card loans, we report the majority of our variable-rate credit card loans as due in one year or less. We report fixed-rate credit card loans with introductory rates that expire after a certain period of time as due in one year or less. We assume that the rest of our remaining fixed-rate credit card loans will mature within one to three years.

(2) We report the maturity period for the home loan portfolio included in the Consumer Banking business based on the earlier of the next re-pricing or contractual maturity date of the loan.

Credit Risk Measurement

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

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

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The following table provides details on the credit scores of our domestic credit card and auto loans held for investment portfolios as of December 31, 2017 and 2016.

Table 20: Credit Score Distribution

(Percentage of portfolio)	December 31, 2017		December 31, 2016	
Domestic credit card—Refreshed FICO scores[1]:				
Greater than 660	66	%	64	%
660 or below	34		36	
Total	100	%	100	%
Auto—At origination FICO scores[2]:				
Greater than 660	51	%	52	%
621 - 660	18		17	
620 or below	31		31	
Total	100	%	100	%

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(1) Percentages represent period-end loans held for investment in each credit score category. Domestic card credit scores generally represent FICO scores. These scores are obtained from one of the major credit bureaus at origination and are refreshed monthly thereafter. We approximate non-FICO credit scores to comparable FICO scores for consistency purposes. Balances for which no credit score is available or the credit score is invalid are included in the 660 or below category.

(2) Percentages represent period-end loans held for investment in each credit score category. Auto credit scores generally represent average FICO scores obtained from three credit bureaus at the time of application and are not refreshed thereafter. Balances for which no credit score is available or the credit score is invalid are included in the 620 or below category.

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

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

Delinquency Rates

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

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Table 21 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, including PCI loans, by portfolio segment, as of December 31, 2017 and 2016.

Table 21: 30+ Day Delinquencies

	December 31, 2017				December 31, 2016			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Credit Card:								
Domestic credit card[2]	$4,219	4.01 %	$4,219	4.01 %	$3,839	3.95 %	$3,839	3.95 %
International card businesses	344	3.64	359	3.80	283	3.36	317	3.76
Total credit card[2]	4,563	3.98	4,578	3.99	4,122	3.91	4,156	3.94
Consumer Banking:								
Auto	3,513	6.51	3,840	7.11	2,931	6.12	3,154	6.58
Home loan[3]	35	0.20	123	0.70	43	0.20	205	0.95
Retail banking	26	0.76	47	1.35	25	0.70	49	1.39
Total consumer banking[3]	3,574	4.76	4,010	5.34	2,999	4.10	3,408	4.67
Commercial Banking:								
Commercial and multifamily real estate	69	0.26	107	0.41	20	0.07	45	0.17
Commercial and industrial	18	0.05	158	0.42	36	0.09	408	1.02
Total commercial lending	87	0.14	265	0.41	56	0.08	453	0.68
Small-ticket commercial real estate	1	0.21	7	1.55	6	1.31	10	2.14
Total commercial banking	88	0.14	272	0.42	62	0.09	463	0.69
Other loans	2	3.28	4	6.29	2	3.66	8	12.90
Total[2]	$8,227	3.23	$8,864	3.48	$7,185	2.93	$8,035	3.27

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(1) Delinquency rates are calculated by dividing delinquency amounts by period-end loans held for investment for each specified loan category, including PCI loans as applicable.

(2) Excluding the impact of the Cabela's acquisition, the domestic credit card and total credit card 30+ day performing delinquency rates as of December 31, 2017 would have been 4.18% and 4.14%, respectively, and the total 30+ day performing delinquency rate would have been 3.28%.

(3) Excluding the impact of PCI loans, the 30+ day performing delinquency rate for our home loan and total consumer banking portfolios was 0.48% and 5.52%, respectively, as of December 31, 2017, and 0.59% and 5.12%, respectively, as of December 31, 2016. Excluding the impact of PCI loans, the 30+ day delinquency rate for our home loan and total consumer banking portfolios was 1.67% and 6.19%, respectively, as of December 31, 2017, and 2.86% and 5.82%, respectively, as of December 31, 2016.

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Table 22 presents an aging and geography of 30+ day delinquent loans as of December 31, 2017 and 2016.

Table 22: Aging and Geography of 30+ Day Delinquent Loans

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Delinquency status:				
30 – 59 days	$3,945	1.55 %	$3,466	1.41 %
60 – 89 days	2,166	0.85	1,920	0.78
> 90 days	2,753	1.08	2,649	1.08
Total	$8,864	3.48 %	$8,035	3.27 %
Geographic region:				
Domestic	$8,505	3.34 %	$7,718	3.14 %
International	359	0.14	317	0.13
Total	$8,864	3.48 %	$8,035	3.27 %
Total loans held for investment	$254,473		$245,586	

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(1) Delinquency rates are calculated by dividing delinquency amounts by total period-end loans held for investment, including PCI loans as applicable.

Table 23 summarizes loans that were 90+ days delinquent as to interest or principal, and still accruing interest as of December 31, 2017 and 2016. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"), we continue to accrue interest and fees on domestic credit card loans through the date of charge-off, which is typically in the period the account becomes 180 days past due. While domestic credit card loans typically remain on accrual status until the loan is charged off, we reduce the balance of our credit card receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 23: 90+ Day Delinquent Loans Accruing Interest

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Loan category:				
Credit card	$2,221	1.94 %	$1,936	1.83 %
Commercial banking	12	0.02	—	—
Total	$2,233	0.88	$1,936	0.79
Geographic region:				
Domestic	$2,105	0.86	$1,840	0.78
International	128	1.35	96	1.14
Total	$2,233	0.88	$1,936	0.79

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(1) Delinquency rates are calculated by dividing delinquency amounts by period-end loans held for investment for each specified loan category, including PCI loans as applicable.

Nonperforming Loans and Nonperforming Assets

Nonperforming assets consist of nonperforming loans, foreclosed properties and repossessed assets, and the net realizable value of certain partially charged off auto loans. Nonperforming loans include loans that have been placed on nonaccrual status. See "Note 1—Summary of Significant Accounting Policies" for information on our policies for classifying loans as nonperforming for each of our loan categories.

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Table 24 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of December 31, 2017 and 2016. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value. We provide additional information on our credit quality metrics above under "MD&A—Business Segment Financial Performance."

Table 24: Nonperforming Loans and Other Nonperforming Assets[1]

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	Rate	Amount	Rate
Nonperforming loans held for investment:[2]				
Credit Card:				
International card businesses	$24	0.25%	$42	0.50 %
Total credit card	24	0.02	42	0.04
Consumer Banking:				
Auto[3]	376	0.70	223	0.47
Home loan[4]	176	1.00	273	1.26
Retail banking	35	1.00	31	0.86
Total consumer banking[4]	587	0.78	527	0.72
Commercial Banking:				
Commercial and multifamily real estate	38	0.15	30	0.11
Commercial and industrial	239	0.63	988	2.48
Total commercial lending	277	0.43	1,018	1.53
Small-ticket commercial real estate	7	1.65	4	0.85
Total commercial banking	284	0.44	1,022	1.53
Other loans	4	7.71	8	13.10
Total nonperforming loans held for investment[5]	$899	0.35	$1,599	0.65
Other nonperforming assets:[6]				
Foreclosed property	$88	0.03	$75	0.03
Other assets[3]	65	0.03	205	0.08
Total other nonperforming assets	153	0.06	280	0.11
Total nonperforming assets	$1,052	0.41	$1,879	0.76

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(1) We recognized interest income for loans classified as nonperforming of $52 million and $45 million in 2017 and 2016, respectively. Interest income foregone related to nonperforming loans was $44 million and $59 million in 2017 and 2016, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(2) Nonperforming loan rates are calculated based on nonperforming loans for each category divided by period-end total loans held for investment for each respective category.

(3) Beginning in the first quarter of 2017, partially charged-off auto loans previously presented within other assets were prospectively included within loans held for investment. Other assets includes repossessed assets obtained in satisfaction of auto loans and the net realizable value of certain partially charged-off auto loans, which will continue to decline over time.

(4) Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 2.39% and 0.91%, respectively, as of December 31, 2017, compared to 3.81% and 0.90%, respectively, as of December 31, 2016.

(5) Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.60% and 1.08% as of December 31, 2017 and 2016, respectively.

(6) The denominators used in calculating nonperforming asset rates consist of total loans held for investment and total other nonperforming assets.

87 Capital One Financial Corporation (COF)

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Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine to be uncollectible, net of recovered amounts. We charge off loans as a reduction to the allowance for loan and lease losses when we determine the loan is uncollectible and record subsequent recoveries of previously charged-off amounts as increases to the allowance for loan and lease losses. Uncollectible finance charges and fees are reversed through revenue and certain fraud losses are recorded in other non-interest expense. Generally, costs to recover charged-off loans are recorded as collection expenses and included in our consolidated statements of income as a component of other non-interest expense as incurred. Our charge-off policy for loans varies based on the loan type. See "Note 1—Summary of Significant Accounting Policies" for information on our charge-off policy for each of our loan categories. Table 25 presents our net charge-off amounts and rates, by portfolio segment, in 2017, 2016 and 2015.

Table 25: Net Charge-Offs (Recoveries)

	Year Ended December 31,					
	2017		2016		2015	
(Dollars in millions)	Amount	Rate[(1)]	Amount	Rate[(1)]	Amount	Rate[(1)]
Credit Card:						
Domestic credit card[(2)]	$4,739	4.99 %	$3,681	4.16 %	$2,718	3.45 %
International card businesses	315	3.69	272	3.33	200	2.50
Total credit card[(2)]	5,054	4.88	3,953	4.09	2,918	3.36
Consumer Banking:						
Auto	957	1.86	752	1.69	674	1.69
Home loan[(3)]	15	0.08	14	0.06	9	0.03
Retail banking	66	1.92	54	1.53	48	1.33
Total consumer banking[(3)]	1,038	1.39	820	1.15	731	1.03
Commercial Banking:						
Commercial and multifamily real estate	1	—	(3)	(0.01)	(15)	(0.06)
Commercial and industrial	463	1.17	293	0.75	60	0.21
Total commercial lending	464	0.69	290	0.45	45	0.09
Small-ticket commercial real estate	1	0.24	2	0.30	2	0.36
Total commercial banking	465	0.69	292	0.45	47	0.09
Other loans	5	9.70	(3)	(3.89)	(1)	(1.66)
Total net charge-offs	$6,562	2.67	$5,062	2.17	$3,695	1.75
Average loans held for investment	$245,565		$233,272		$210,745	

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(1) Net charge-off (recovery) rate is calculated by dividing net charge-offs by average loans held for investment for the period for each loan category.

(2) Excluding the impact of the Cabela's acquisition, the domestic credit card and total credit card net charge-off rates for the year ended December 31, 2017 would have been 5.07% and 4.95%, respectively.

(3) Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.07% and 1.65%, respectively, for the year ended December 31, 2017 compared to 0.20% and 1.49%, respectively, for the year ended December 31, 2016, and 0.13% and 1.45%, respectively, for the year ended December 31, 2015.

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Troubled Debt Restructurings

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

Table 26 presents our recorded investment of loans modified in TDRs as of December 31, 2017 and 2016, which excludes loan modifications that do not meet the definition of a TDR, and PCI loans, which we track and report separately.

Table 26: Troubled Debt Restructurings

	December 31, 2017			December 31, 2016		
(Dollars in millions)	Amount	% of Total Modifications		Amount	% of Total Modifications	
Credit card	$812	36.9	%	$715	29.0	%
Consumer banking:						
Auto	481	21.9		523	21.2	
Home loan	192	8.7		241	9.8	
Retail banking	37	1.7		43	1.7	
Total consumer banking	710	32.3		807	32.7	
Commercial banking	679	30.8		944	38.3	
Total	$2,201	100.0	%	$2,466	100.0	%
Status of TDRs:						
Performing	$1,850	84.1	%	$1,631	66.1	%
Nonperforming	351	15.9		835	33.9	
Total	$2,201	100.0	%	$2,466	100.0	%

In the Credit Card business, the majority of our credit card loans modified in TDRs involve reducing the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. The effective interest rate in effect immediately prior to the loan modification is used as the effective interest rate for purposes of measuring impairment using the present value of expected cash flows. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, likely resulting in any loan outstanding reflected in the appropriate delinquency category, and charged off in accordance with our standard charge-off policy.

In the Consumer Banking business, the majority of our loans modified in TDRs receive an extension, an interest rate reduction or principal reduction, or a combination of the three. In addition, TDRs also occur in connection with bankruptcy of the borrower. In certain bankruptcy discharges, the loan is written down to the collateral value and the charged off amount is reported as principal reduction. Their impairment is determined using the present value of expected cash flows or a collateral evaluation for certain auto and home loans where the collateral value is lower than the recorded investment.

In the Commercial Banking business, the majority of loans modified in TDRs receive an extension, with a portion of these loans receiving an interest rate reduction or a gross balance reduction. The impairment on modified commercial loans is generally determined based on the underlying collateral value.

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

Impaired Loans

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

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Impaired loans totaled $2.4 billion and $3.2 billion as of December 31, 2017 and 2016, respectively. These amounts include TDRs of $2.2 billion and $2.5 billion as of December 31, 2017 and 2016, respectively. We provide additional information on our impaired loans, including the allowance for loan and lease losses established for these loans, in "Note 4—Loans" and "Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments."

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease credit losses inherent to our held for investment portfolio as of each balance sheet date. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses under "Note 1—Summary of Significant Accounting Policies."

Table 27 presents changes in our allowance for loan and lease losses and reserve for unfunded lending commitments for 2017 and 2016, and details by portfolio segment for the provision for credit losses, charge-offs and recoveries.

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Table 27: Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Activity

	Credit Card			Consumer Banking						
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:										
Balance as of December 31, 2015	$3,355	$ 299	$3,654	$726	$70	$ 72	$868	$ 604	$ 4	$5,130
Charge-offs	(4,586)	(433)	(5,019)	(1,135)	(22)	(69)	(1,226)	(307)	(3)	(6,555)
Recoveries	905	161	1,066	383	8	15	406	15	6	1,493
Net charge-offs	(3,681)	(272)	(3,953)	(752)	(14)	(54)	(820)	(292)	3	(5,062)
Provision for loan and lease losses	4,555	371	4,926	983	9	63	1,055	515	(5)	6,491
Allowance build (release) for loan and lease losses	874	99	973	231	(5)	9	235	223	(2)	1,429
Other changes[2]	—	(21)	(21)	—	—	(1)	(1)	(34)	—	(56)
Balance as of December 31, 2016	4,229	377	4,606	957	65	80	1,102	793	2	6,503
Reserve for unfunded lending commitments:										
Balance as of December 31, 2015	—	—	—	—	—	7	7	161	—	168
Benefit for losses on unfunded lending commitments	—	—	—	—	—	—	—	(32)	—	(32)
Balance as of December 31, 2016	—	—	—	—	—	7	7	129	—	136
Combined allowance and reserve as of December 31, 2016	$4,229	$ 377	$4,606	$957	$65	$ 87	$1,109	$ 922	$ 2	$6,639
Allowance for loan and lease losses:										
Balance as of December 31, 2016	$4,229	$ 377	$4,606	$957	$65	$ 80	$1,102	$ 793	$ 2	$6,503
Charge-offs	(5,844)	(477)	(6,321)	(1,573)	(22)	(82)	(1,677)	(481)	(34)	(8,513)
Recoveries	1,105	162	1,267	616	7	16	639	16	29	1,951
Net charge-offs	(4,739)	(315)	(5,054)	(957)	(15)	(66)	(1,038)	(465)	(5)	(6,562)
Provision for loan and lease losses	5,783	283	6,066	1,119	10	51	1,180	313	4	7,563
Allowance build (release) for loan and lease losses	1,044	(32)	1,012	162	(5)	(15)	142	(152)	(1)	1,001
Other changes[2]	—	30	30	—	(2)	—	(2)	(30)	—	(2)
Balance as of December 31, 2017	5,273	375	5,648	1,119	58	65	1,242	611	1	7,502
Reserve for unfunded lending commitments:										
Balance as of December 31, 2016	—	—	—	—	—	7	7	129	—	136

Benefit for losses on unfunded lending commitments	—	—	—	—	—	—	—	(12)	—	(12)
Balance as of December 31, 2017	—	—	—	—	—	7	7	117	—	124
Combined allowance and reserve as of December 31, 2017	$5,273	$ 375	$5,648	$1,119	$58	$ 72	$1,249	$ 728	$ 1	$7,626

(1) Primarily consists of the legacy loan portfolio of our discontinued GreenPoint mortgage operations.
(2) Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

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Table 28 presents the allowance coverage ratios as of December 31, 2017 and 2016.

Table 28: Allowance Coverage Ratios

	December 31, 2017	December 31, 2016
Total allowance coverage ratio	2.95 %	2.65 %
Allowance coverage ratios by loan category:[1]		
Credit card (30+ day delinquent loans)	123.36	110.83
Consumer banking (30+ day delinquent loans)	30.95	32.32
Commercial banking (nonperforming loans)	215.14	77.58

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(1) Allowance coverage ratios by loan category are calculated based on the allowance for loan and lease losses for each specified portfolio segment divided by period-end loans held for investment within the specified loan category.

Our allowance for loan and lease losses increased by $999 million to $7.5 billion as of December 31, 2017 from December 31, 2016, and the allowance coverage ratio increased by 30 basis points to 2.95% as of December 31, 2017 from December 31, 2016. The increases were primarily driven by:

- an allowance build in our domestic credit card loan portfolio primarily due to increasing losses from recent vintages and portfolio seasoning; and
- an allowance build in our auto loan portfolio due to higher losses associated with growth.

These increases were partially offset by an allowance decrease in our commercial loan portfolio primarily driven by charge-offs in our taxi medallion lending portfolio, as well as reduced exposure and improved credit risk ratings in our oil and gas portfolio.

LIQUIDITY RISK PROFILE

We have established liquidity practices that are intended to ensure that we have sufficient asset-based liquidity to cover our funding requirements and maintain adequate reserves to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. We maintain these reserves in the form of readily-marketable or pledgeable assets that can be used as a source of liquidity, if needed.

Table 29 below presents the composition of our liquidity reserves as of December 31, 2017 and 2016.

Table 29: Liquidity Reserves

(Dollars in millions)	December 31, 2017	December 31, 2016
Cash and cash equivalents	$ 14,040	$ 9,976
Investment securities portfolio:		
Investment securities available for sale, at fair value	37,655	40,737
Investment securities held to maturity, at fair value	29,437	26,196
Total investment securities portfolio	67,092	66,933
FHLB borrowing capacity secured by loans	20,927	24,078
Outstanding FHLB advances and letters of credit secured by loans	(9,115)	(17,646)
Investment securities encumbered for Public Funds and others	(8,619)	(9,265)
Total liquidity reserves	$ 84,325	$ 74,076

Our liquidity reserves increased by $10.2 billion to $84.3 billion as of December 31, 2017 from December 31, 2016 primarily due to the decrease in our FHLB advances outstanding and an increase in our cash and cash equivalents. See “MD&A—Risk Management” for additional information on our management of liquidity risk.

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Liquidity Coverage Ratio

We are subject to the Final Liquidity Coverage Ratio Rule ("Final LCR Rule") issued by the Federal Banking Agencies. The Final LCR Rule came into effect in January 2015 and required us to calculate the LCR daily starting July 1, 2016. The minimum LCR standard was phased-in beginning January 1, 2015 and is at 100% as of January 1, 2017. At December 31, 2017, we exceeded the fully phased-in LCR requirement. The calculation and the underlying components are based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and are subject to change based on changes to future regulations and interpretations. See "Part I—Item 1. Business—Supervision and Regulation" for additional information.

Borrowing Capacity

We filed a shelf registration statement with the SEC on March 31, 2015, which expires in March 2018. Under this shelf registration, we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration to the amount or number of such securities that we may offer and sell, subject to market conditions. We expect to file a new shelf registration statement prior to the expiration of our existing shelf registration statement. We also filed a shelf registration statement with the SEC on January 12, 2016, which expires in January 2019 and allows us to periodically offer and sell up to $23 billion of securitized debt obligations from our credit card loan securitization trust.

In addition to our issuance capacity under the shelf registration statements, we also have access to FHLB advances with a maximum borrowing capacity of $21.0 billion, of which $11.9 billion was still available to us to borrow as of December 31, 2017. The ability to draw down funding is based on membership status and the amount is dependent upon the Banks' ability to post collateral. Our FHLB membership is secured by our investment in FHLB stock of $360 million and $760 million as of December 31, 2017 and 2016, respectively, which was determined in part based on our outstanding advances. We also have access to the Federal Reserve Discount Window through which we had a borrowing capacity of $7.4 billion as of December 31, 2017. Our membership with the Federal Reserve is secured by our investment in Federal Reserve stock, totaling $1.2 billion as of both December 31, 2017 and 2016.

Funding

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

Deposits

Table 30 provides the composition of deposits as of December 31, 2017, 2016 and 2015, as well as a comparison of average balances, interest expense and average deposit interest rates for the years ended December 31, 2017, 2016 and 2015.

Table 30: Deposits Composition and Average Deposits Interest Rates

	December 31,		
(Dollars in millions)	2017	2016	2015
Non-interest-bearing deposits	$26,404	$25,502	$25,847
Interest-bearing checking accounts[(1)]	42,938	45,820	44,720
Saving deposits[(2)]	144,309	145,142	134,075
Time deposits less than $100,000	25,350	16,949	10,347
Total core deposits	239,001	233,413	214,989
Time deposits of $100,000 or more	4,330	2,875	1,889
Foreign deposits	371	480	843
Total deposits	$243,702	$236,768	$217,721

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(Dollars in millions)	Year Ended December 31, 2017 Average Balance	Interest Expense	Average Deposits Interest Rate	2016 Average Balance	Interest Expense	Average Deposits Interest Rate	2015 Average Balance	Interest Expense	Average Deposits Interest Rate
Interest-bearing checking accounts[1]	$44,537	$227	0.51 %	$45,339	$218	0.48 %	$42,785	$208	0.49 %
Saving deposits[2]	144,273	982	0.68	137,753	814	0.59	132,658	769	0.58
Time deposits less than $100,000	21,030	337	1.60	12,062	144	1.19	7,213	74	1.03
Total interest-bearing core deposits	209,840	1,546	0.74	195,154	1,176	0.60	182,656	1,051	0.58
Time deposits of $100,000 or more	3,661	54	1.50	2,511	35	1.39	2,043	36	1.76
Foreign deposits	448	2	0.38	639	2	0.35	978	4	0.34
Total interest-bearing deposits	$213,949	$1,602	0.75	$198,304	$1,213	0.61	$185,677	$1,091	0.59

(1) Includes Negotiable Order of Withdrawal ("NOW") accounts.
(2) Includes Money Market Deposit Accounts ("MMDA").

Our deposits include brokered deposits, which we obtained through third-party intermediaries. Those brokered deposits are reported as interest-bearing checking, saving deposits and time deposits in the above table and totaled $25.1 billion and $22.5 billion as of December 31, 2017 and 2016, respectively.

The FDIC limits the acceptance of brokered deposits by well-capitalized insured depository institutions and, with a waiver from the FDIC, by adequately-capitalized institutions. COBNA and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of December 31, 2017 and 2016, respectively. See "Part I—Item 1. Business—Supervision and Regulation" for additional information.

Table 31 presents the contractual maturities of large-denomination domestic time deposits of $100,000 or more as of December 31, 2017 and 2016. Our funding and liquidity management activities factor into the expected maturities of these deposits.

Table 31: Maturities of Large-Denomination Domestic Time Deposits—$100,000 or More

(Dollars in millions)	December 31, 2017 Amount	% of Total	2016 Amount	% of Total
Up to three months	$577	13.3 %	$656	22.8 %
> 3 months to 6 months	469	10.8	282	9.8
> 6 months to 12 months	1,030	23.8	559	19.5
> 12 months	2,254	52.1	1,378	47.9
Total	$4,330	100.0%	$2,875	100.0%

Short-Term Borrowings and Long-Term Debt

We access the capital markets to meet our funding needs through the issuance of senior and subordinated notes, securitized debt obligations, and federal funds purchased and securities loaned or sold under agreements to repurchase. In addition, we may utilize short-term and long-term FHLB advances secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and home equity lines of credit. Substantially all of our long-term FHLB advances are structured with either a monthly or a quarterly call option at our discretion.

Our short-term borrowings include those borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. The short-term borrowings, which consist of federal funds

purchased and securities loaned or sold under agreements to repurchase, decreased by $416 million to $576 million as of December 31, 2017 from December 31, 2016.

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Our long-term debt, which primarily consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by $237 million to $59.7 billion as of December 31, 2017 from December 31, 2016, primarily attributable to net issuances of senior and subordinated notes and securitized debt obligations, partially offset by a decrease in our FHLB advances outstanding.

The following table summarizes issuances of securitized debt obligations, senior and subordinated notes, and FHLB advances and their respective maturities or redemptions for the years ended December 31, 2017 and 2016.

Table 32: Long-Term Funding

	Issuances Year Ended December 31,		Maturities/Redemptions Year Ended December 31,	
(Dollars in millions)	2017	2016	2017	2016
Securitized debt obligations[1]	$8,474	$6,275	$ 7,233	$ 3,520
Senior and subordinated notes	10,300	4,405	2,804	2,650
FHLB advances	25,180	18,600	33,750	21,520
Total	$43,954	$29,280	$ 43,787	$ 27,690

[1] Includes $2.5 billion of securitized debt assumed in the Cabela’s acquisition for the year ended December 31, 2017.

Credit Ratings

Our credit ratings impact our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs.

Table 33 provides a summary of the credit ratings for the senior unsecured long-term debt of Capital One Financial Corporation, COBNA and CONA as of December 31, 2017 and 2016.

Table 33: Senior Unsecured Long-Term Debt Credit Ratings

	December 31, 2017			December 31, 2016		
	Capital One Financial Corporation	COBNA	CONA	Capital One Financial Corporation	COBNA	CONA
Moody’s	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
S&P	BBB	BBB+	BBB+	BBB	BBB+	BBB+
Fitch	A-	A-	A-	A-	A-	A-

As of February 15, 2018, S&P and Fitch Ratings (“Fitch”) have us on a stable outlook. On November 8, 2017, Moody’s affirmed our senior unsecured long-term debt credit ratings and revised our outlook from stable to negative.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that may require future cash payments that affect our short-term and long-term liquidity and capital resource needs. Our future cash outflows primarily relate to deposits, borrowings and operating leases. Table 34 summarizes, by remaining contractual maturity, our significant contractual cash obligations as of December 31, 2017. The actual timing and amounts of future cash payments may differ from the amounts presented below due to a number of factors, such as discretionary debt repurchases. Table 34 excludes short-term obligations such as trade payables, representation and warranty reserves, and obligations for pension and post-retirement benefit plans, which are discussed in more detail in “Note 19—Commitments, Contingencies, Guarantees and Others” and “Note 15—Employee Benefit Plans.”

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Table 34: Contractual Obligations

(Dollars in millions)	December 31, 2017				
	Up to 1 Year	> 1 Years to 3 Years	> 3 Years to 5 Years	> 5 Years	Total
Interest-bearing time deposits[1][2]	$9,025	$12,542	$7,955	$ 158	$29,680
Securitized debt obligations[2]	2,666	12,117	4,250	977	20,010
Other debt:					
Federal funds purchased and securities loaned or sold under agreements to repurchase	576	—	—	—	576
Senior and subordinated notes	4,690	10,027	5,963	10,075	30,755
Other borrowings[3]	230	8,669	5	36	8,940
Total other debt[2]	5,496	18,696	5,968	10,111	40,271
Operating leases	332	616	527	1,177	2,652
Purchase obligations[4]	225	461	167	131	984
Total	$17,744	$44,432	$18,867	$ 12,554	$93,597

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(1) Includes only those interest-bearing deposits which have a contractual maturity date.

(2) These amounts represent the carrying value of the obligations and do not include amounts related to contractual interest obligations. Total contractual interest obligations were approximately $6.8 billion as of December 31, 2017, and represent forecasted net interest payments based on interest rates as of December 31, 2017. These forecasts use the contractual maturity date of each liability and include the impact of hedge accounting where applicable.

(3) Other borrowings primarily consists of FHLB advances.

(4) Represents substantial agreements to purchase goods or services that are enforceable and legally binding and specify all significant terms. Purchase obligations are included through the termination date of the agreements even if the contract is renewable.

MARKET RISK PROFILE

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

Primary Market Risk Exposures

Our primary source of market risk is interest rate risk. We also have exposure to foreign exchange risk and customer-related trading risk, both of which we believe are minimal after considering the impact of our associated risk management activities discussed below.

Interest Rate Risk

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

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. Our primary exposure to foreign exchange risk is related to the operations of our international businesses in the U.K. and Canada. The largest foreign exchange exposure arising from these operations is the funding they are provided in the Great British pound ("GBP") and the Canadian dollar ("CAD"), respectively. We also have foreign exchange exposure through our net equity investments in these operations and through the dollar-denominated value of future earnings and cash flows they generate.

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Our intercompany funding exposes our consolidated statements of income to foreign exchange transaction risk, while our equity investments in our foreign operations result in translation risk exposure in our AOCI and capital ratios. We manage our transaction risk by entering into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency-denominated intercompany borrowings. We use foreign currency derivative contracts as net investment hedges to manage our AOCI exposure. We apply hedge accounting to both our intercompany funding hedges and our net investment hedges, with the primary net investments subject to hedging denominated in GBP.

We measure our total exposure from non-dollar-denominated intercompany borrowings to our international businesses by regularly tracking the value of the loans made to our foreign operations and the associated forward foreign currency derivative contracts we use to hedge them. We apply a 1% U.S. dollar appreciation shock against these exposures to measure the impact to our consolidated statements of income from foreign exchange transaction risk. The intercompany borrowings to our international businesses were 741 million GBP and 786 million GBP as of December 31, 2017 and 2016, respectively, and 6.4 billion CAD and 6.2 billion CAD as of December 31, 2017 and 2016, respectively.

We measure our total exposure in non-dollar-denominated equity by regularly tracking the value of net equity invested in our foreign operations, the largest of which is in our U.K. and Canadian operations. Our measurement of net equity includes the impact of net investment hedges where applicable. We apply a 30% U.S. dollar appreciation shock against these net investment exposures, which we believe approximates a significant adverse foreign exchange movement over a one-year time horizon. Our gross equity exposures in our U.K. and Canadian operations were 1.6 billion and 1.5 billion GBP as of December 31, 2017 and 2016, respectively, and 1.0 billion CAD and 863 million CAD as of December 31, 2017 and 2016, respectively.

As a result of our derivative management activities, we believe our net exposure to foreign exchange risk is minimal.

Customer-Related Trading Risk

We offer various interest rate, foreign exchange rate and commodity derivatives as an accommodation to customers within our Commercial Banking business and offset the majority of these exposures through derivative transactions with other counterparties. These exposures are measured and monitored on a daily basis. As a result of offsetting our customer exposures with other counterparties, we believe our net exposure to customer-related trading risk is minimal.

We employ value-at-risk (“VaR”) as the primary method to both measure and monitor the market risk in our customer-related trading activities. VaR is a statistical-based risk measure used to estimate the potential loss from adverse market movements in a normal market environment. We employ a historical simulation approach using the most recent 500 business days and use a 99 percent confidence level and a holding period of one business day. We use internal models to produce a daily VaR measure of the market risk of all customer-related trading exposures.

For further information on our customer-related trading exposures, see “Note 10—Derivative Instruments and Hedging Activities.”

Market Risk Management

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, altering the duration and re-pricing characteristics of our various assets and liabilities and mitigating the foreign exchange exposure of certain non-dollar-denominated equity or transactions. Derivatives are the primary tools that we use for managing interest rate and foreign exchange risk. Use of derivatives is included in our current market risk management policies. We execute our derivative contracts in both over-the-counter (“OTC”) and exchange-traded derivative markets and have exposure to both bilateral and clearinghouse counterparties. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts increased to $196.6 billion as of December 31, 2017 from $142.9 billion as of December 31, 2016 primarily driven by an increase in our hedging activities.

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Market Risk Measurement

We have risk management policies and limits established by our market risk management policies and approved by the Board of Directors. Our objective is to manage our asset and liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analysis to measure, assess and manage the impact of changes in interest rates on our net interest income and our economic value of equity and the impact of changes in foreign exchange rates on our non-dollar-denominated earnings and non-dollar equity investments in foreign operations. We provide additional information below in "Economic Value of Equity."

We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. Due to the increase in interest rates since December 31, 2016, we have incorporated a 100-basis points decline scenario into our interest rate sensitivity analysis. We use this 100-basis points decrease as our largest magnitude declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is unlikely. In scenarios where a 100-basis points decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

Net Interest Income Sensitivity

This sensitivity measure estimates the impact on our projected 12-month baseline interest rate-sensitive revenue resulting from movements in interest rates. Interest rate-sensitive revenue consists of net interest income and certain components of other non-interest income significantly impacted by movements in interest rates, including changes in the fair value of mortgage servicing rights and free-standing interest rate swaps. Adjusted net interest income consists of net interest income and changes in the fair value of mortgage servicing rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our projected interest rate-sensitive revenue, we assume a hypothetical instantaneous parallel shift in the level of interest rates of +200 basis points, +100 basis points, +50 basis points, -50 basis points and -100 basis points to spot rates, with the lower rate scenario limited to zero as described above. At the current level of interest rates, our net interest income remains mostly unchanged in the -50, +50 and +100 basis points scenarios and decreases slightly in the -100 and +200 basis points scenarios.

Economic Value of Equity

Our economic value of equity sensitivity measure estimates the impact on the net present value of our assets and liabilities, including derivative hedging activity, resulting from movements in interest rates. Our economic value of equity sensitivity measures are calculated based on our existing assets and liabilities, including derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of +200 basis points, +100 basis points, +50 basis points, -50 basis points and -100 basis points to spot rates, with the lower rate scenario limited to zero as described above.

Calculating our economic value of equity and its sensitivity to interest rates requires projecting cash flows for assets, liabilities and derivative instruments and discounting those cash flows at the appropriate discount rates. Key assumptions in our economic value of equity calculation include projecting rate sensitive prepayments for mortgage securities, loans and other assets, term structure modeling of interest rates, discount spreads, and deposit volume and pricing assumptions.

Our current economic value of equity sensitivity profile demonstrates that our economic value of equity generally decreases as interest rates increase indicating that the economic value of our assets and derivative positions is more sensitive to interest rate changes than our liabilities.

Table 35 shows the estimated percentage impact on our projected baseline net interest income and economic value of equity calculated under the methodology described above as of December 31, 2017 and 2016. During the second quarter of 2017, we updated our projected commercial deposit attrition assumptions that resulted in longer life of these deposit balances and accounts for most of the decrease in economic value of equity sensitivity from December 31,

2016. Our net interest income sensitivity measures were largely unchanged from this assumption update.

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Table 35: Interest Rate Sensitivity Analysis

	December 31, 2017	December 31, 2016
Estimated impact on projected baseline net interest income:		
+200 basis points	(0.8)%	(0.1)%
+100 basis points	(0.3)	0.5
+50 basis points	—	0.4
–50 basis points	(0.3)	(1.0)
–100 basis points	(1.3)	N/A
Estimated impact on economic value of equity:		
+200 basis points	(7.5)	(9.6)
+100 basis points	(3.1)	(3.8)
+50 basis points	(1.2)	(1.5)
–50 basis points	0.1	0.5
–100 basis points	(1.5)	N/A

In addition to these industry standard measures, we will continue to factor into our internal interest rate risk management decisions the potential impact of alternative interest rate scenarios, such as stressed rate shocks as well as steepening and flattening yield curve scenarios.

Limitations of Market Risk Measures

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

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

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SUPPLEMENTAL TABLES

Table A—Loans Held for Investment Portfolio Composition

	December 31,				
(Dollars in millions)	2017	2016	2015	2014	2013
Credit Card:					
Domestic credit card	$105,293	$97,120	$87,939	$77,704	$73,255
International card businesses	9,469	8,432	8,186	8,172	8,050
Total credit card	114,762	105,552	96,125	85,876	81,305
Consumer Banking:					
Auto	53,991	47,916	41,549	37,824	31,857
Home loan	17,633	21,584	25,227	30,035	35,282
Retail banking	3,454	3,554	3,596	3,580	3,623
Total consumer banking	75,078	73,054	70,372	71,439	70,762
Commercial Banking:					
Commercial and multifamily real estate	26,150	26,609	25,518	23,137	20,750
Commercial and industrial	38,025	39,824	37,135	26,972	23,309
Total commercial lending	64,175	66,433	62,653	50,109	44,059
Small-ticket commercial real estate	400	483	613	781	952
Total commercial banking	64,575	66,916	63,266	50,890	45,011
Other loans	58	64	88	111	121
Total loans	$254,473	$245,586	$229,851	$208,316	$197,199

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Table B—Performing Delinquencies

	December 31,									
	2017		2016		2015		2014		2013	
(Dollars in millions)	Loans[1][2]	Rate[3]	Loans[1][2]	Rate[3]	Loans[1][2]	Rate[3]	Loans[1][2]	Rate[3]	Loans[1][2]	Rate[3]
Delinquent loans:										
30 – 59 days	$3,908	1.53 %	$3,416	1.39 %	$3,042	1.33 %	$2,803	1.34 %	$2,584	1.31 %
60 – 89 days	2,086	0.82	1,833	0.75	1,636	0.71	1,394	0.67	1,313	0.67
90 – 119 days	862	0.34	771	0.31	603	0.26	508	0.24	512	0.26
120 – 149 days	734	0.29	628	0.26	493	0.21	409	0.20	418	0.21
150 or more days	637	0.25	537	0.22	409	0.18	346	0.17	361	0.18
Total[4]	$8,227	3.23 %	$7,185	2.93 %	$6,183	2.69 %	$5,460	2.62 %	$5,188	2.63 %
By geographic area:										
Domestic	$7,883	3.10 %	$6,902	2.81 %	$5,939	2.58 %	$5,220	2.50 %	$4,889	2.48 %
International	344	0.13	283	0.12	244	0.11	240	0.12	299	0.15
Total[4]	$8,227	3.23 %	$7,185	2.93 %	$6,183	2.69 %	$5,460	2.62 %	$5,188	2.63 %
Total loans held for investment	$254,473		$245,586		$229,851		$208,316		$197,199	

(1) Credit card loan balances are reported net of the finance charge and fee reserve, which totaled $491 million, $402 million, $262 million, $216 million and $190 million as of December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

(2) Performing loan modifications and restructuring totaled $1.9 billion, $1.6 billion, $1.4 billion, $1.2 billion and $1.3 billion as of December 31, 2017, 2016, 2015, 2014 and 2013, respectively.

(3) Delinquency rates are calculated by dividing loans in each delinquency status category and geographic region as of the end of the period by the total loan portfolio.

(4) Excluding the impact of the Cabela’s acquisition, the total 30+ day performing delinquency rate would have been 3.28%.

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Table C—Nonperforming Loans and Other Nonperforming Assets

	December 31,				
(Dollars in millions)	2017	2016	2015	2014	2013
Nonperforming loans held for investment:					
Credit Card:					
International card businesses	$24	$42	$53	$70	$88
Total credit card	24	42	53	70	88
Consumer Banking:					
Auto[1]	376	223	219	197	194
Home loan	176	273	311	330	376
Retail banking	35	31	28	22	41
Total consumer banking	587	527	558	549	611
Commercial Banking:					
Commercial and multifamily real estate	38	30	7	62	52
Commercial and industrial	239	988	538	106	93
Total commercial lending	277	1,018	545	168	145
Small-ticket commercial real estate	7	4	5	7	4
Total commercial banking	284	1,022	550	175	149
Other loans	4	8	9	15	19
Total nonperforming loans held for investment	$899	$1,599	$1,170	$809	$867
Other nonperforming assets:					
Foreclosed property	$88	$75	$126	$139	$113
Other assets[1]	65	205	198	183	160
Total other nonperforming assets	153	280	324	322	273
Total nonperforming assets	$1,052	$1,879	$1,494	$1,131	$1,140
Total nonperforming loans[2]	0.35 %	0.65 %	0.51 %	0.39 %	0.44 %
Total nonperforming assets[3]	0.41	0.76	0.65	0.54	0.58

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(1) Beginning in the first quarter of 2017, partially charged-off auto loans previously presented within other assets were prospectively included within loans held for investment. Other assets includes repossessed assets obtained in satisfaction of auto loans and the net realizable value of certain partially charged-off auto loans, which will continue to decline over time.

(2) Nonperforming loan rate is calculated based on total nonperforming loans divided by period-end total loans held for investment.

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

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Table D—Net Charge-Offs

	December 31,				
(Dollars in millions)	2017	2016	2015	2014	2013
Average loans held for investment	$245,565	$233,272	$210,745	$197,925	$192,614
Net charge-offs	6,562	5,062	3,695	3,414	3,934
Net charge-off rate	2.67 %	2.17 %	1.75 %	1.72 %	2.04 %

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Table E—Summary of Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

	December 31,				
(Dollars in millions)	2017	2016	2015	2014	2013
Allowance for loan and lease losses:					
Balance at beginning of period	$6,503	$5,130	$4,383	$4,315	$5,156
Charge-offs:					
Credit card	(6,321)	(5,019)	(4,028)	(3,963)	(4,542)
Consumer banking	(1,677)	(1,226)	(1,082)	(989)	(888)
Commercial banking	(481)	(307)	(76)	(34)	(49)
Other loans	(34)	(3)	(7)	(10)	(26)
Total charge-offs	(8,513)	(6,555)	(5,193)	(4,996)	(5,505)
Recoveries:					
Credit card	1,267	1,066	1,110	1,235	1,257
Consumer banking	639	406	351	314	272
Commercial banking	16	15	29	24	35
Other loans	29	6	8	9	7
Total recoveries	1,951	1,493	1,498	1,582	1,571
Net charge-offs	(6,562)	(5,062)	(3,695)	(3,414)	(3,934)
Provision for credit losses	7,563	6,491	4,490	3,515	3,401
Allowance build (release) for loan and lease losses	1,001	1,429	795	101	(533)
Other changes	(2)	(56)	(48)	(33)	(308)
Balance at end of period	$7,502	$6,503	$5,130	$4,383	$4,315
Reserve for unfunded lending commitments:					
Balance at beginning of period	$136	$168	$113	$87	$35
Provision (benefit) for losses on unfunded lending commitments	(12)	(32)	46	26	52
Other changes	—	—	9	—	—
Balance at end of period	124	136	168	113	87
Combined allowance and reserve at end of period	$7,626	$6,639	$5,298	$4,496	$4,402
Allowance for loan and lease losses as a percentage of loans held for investment	2.95 %	2.65 %	2.23 %	2.10 %	2.19 %
Combined allowance and reserve by geographic distribution:					
Domestic	$7,251	$6,262	$4,999	$4,170	$4,024
International	375	377	299	326	378
Total	$7,626	$6,639	$5,298	$4,496	$4,402
Combined allowance and reserve by loan category:					
Credit card	$5,648	$4,606	$3,654	$3,204	$3,214
Consumer banking	1,249	1,109	875	786	759
Commercial banking	728	922	765	501	418
Other loans	1	2	4	5	11
Total	$7,626	$6,639	$5,298	$4,496	$4,402

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We include certain non-GAAP measures in the following tables. We consider these metrics to be key financial performance measures that management uses in assessing capital adequacy and the level of returns generated. While our non-GAAP measures are widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies, they may not be comparable to similarly-titled measures reported by other companies. These non-GAAP measures are individually identified and calculations are explained in footnotes below the table. The following tables present reconciliations of these non-GAAP measures to the applicable amounts measured in accordance with GAAP.

Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures

	December 31,				
(Dollars in millions, except as noted)	2017	2016	2015	2014	2013
Tangible Common Equity (Period-End):					
Stockholders' equity	$48,730	$47,514	$47,284	$45,053	$41,632
Goodwill and intangible assets[1]	(15,106)	(15,420)	(15,701)	(15,383)	(15,784)
Noncumulative perpetual preferred stock[2]	(4,360)	(4,360)	(3,294)	(1,822)	(853)
Tangible common equity	$29,264	$27,734	$28,289	$27,848	$24,995
Tangible Common Equity (Average):					
Stockholders' equity	$49,530	$48,753	$47,713	$44,268	$41,482
Goodwill and intangible assets[1]	(15,308)	(15,550)	(15,273)	(15,575)	(15,938)
Noncumulative perpetual preferred stock[2]	(4,360)	(3,591)	(2,641)	(1,213)	(853)
Tangible common equity	$29,862	$29,612	$29,799	$27,480	$24,691
Tangible Assets (Period-End):					
Total assets	$365,693	$357,033	$334,048	$308,167	$296,064
Goodwill and intangible assets[1]	(15,106)	(15,420)	(15,701)	(15,383)	(15,784)
Tangible assets	$350,587	$341,613	$318,347	$292,784	$280,280
Tangible Assets (Average)					
Total assets	$354,924	$339,974	$313,474	$297,659	$296,200
Goodwill and intangible assets[1]	(15,308)	(15,550)	(15,273)	(15,575)	(15,938)
Tangible assets	$339,616	$324,424	$298,201	$282,084	$280,262
Non-GAAP Ratio:					
TCE[3]	8.3 %	8.1 %	8.9 %	9.5 %	8.9 %
Capital Ratios:[4]					
Common equity Tier 1 capital[5]	10.3 %	10.1 %	11.1 %	12.5 %	N/A
Tier 1 common[6]	N/A	N/A	N/A	N/A	12.2 %
Tier 1 capital[7]	11.8	11.6	12.4	13.2	12.6
Total capital[8]	14.4	14.3	14.6	15.1	14.7
Tier 1 leverage[9]	9.9	9.9	10.6	10.8	10.1
Supplementary leverage[10]	8.4	8.6	9.2	N/A	N/A
Regulatory Capital Metrics:					
Risk-weighted assets[11]	$292,225	$285,756	$265,739	$236,944	$224,556
Adjusted average assets[9]	348,424	335,835	309,037	291,243	280,574
Total leverage exposure for supplementary leverage ratio	407,832	387,921	357,794	N/A	N/A

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(Dollars in millions)	December 31, 2017	2016	2015	2014
Regulatory Capital Under Basel III Standardized Approach:[4]				
Common equity excluding AOCI	$45,296	$44,103	$44,606	$43,661
Adjustments:				
AOCI[12][13]	(808)	(674)	(254)	(69)
Goodwill, net of related deferred tax liabilities[1]	(14,380)	(14,307)	(14,296)	(13,805)
Intangible assets, net of related deferred tax liabilities[1][13]	(330)	(384)	(393)	(243)
Other	258	65	(119)	(10)
Common equity Tier 1 capital	30,036	28,803	29,544	29,534
Tier 1 capital instruments[2]	4,360	4,359	3,294	1,822
Additional Tier 1 capital adjustments	—	—	—	(1)
Tier 1	34,396	33,162	32,838	31,355

capital				
Tier 2 capital instruments	3,865	4,047	2,654	1,542
Qualifying allowance for loan and lease losses	3,701	3,608	3,346	2,981
Additional Tier 2 capital adjustments	—	—	—	1
Tier 2 capital	7,566	7,655	6,000	4,524
Total capital	$41,962	$40,817	$38,838	$35,879

(Dollars in millions)	December 31, 2013
Regulatory Capital Under Basel I:[4]	
Total stockholders' equity	$41,632
Adjustments:	
Net unrealized losses (gains) on investment securities available for sale recorded in AOCI[13]	791
Net losses on cash flow hedges recorded in AOCI[13]	136
Disallowed goodwill and intangible assets[1]	(14,326)
Noncumulative perpetual preferred stock[2]	(853)
Other	(5)
Tier 1 common capital	27,375
Noncumulative perpetual preferred stock[2]	853
Tier 1 restricted core capital items	2
Tier 1 capital	28,230
Long-term debt qualifying as Tier 2 capital	1,914
Qualifying allowance for loan and lease losses	2,833
Other Tier 2 components	10
Tier 2 capital	4,757
Total capital	$32,987

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(1) Goodwill and intangible assets includes impact of related deferred taxes.

(2) Noncumulative perpetual preferred stock and Tier 1 capital instruments include related surplus.

(3) TCE ratio is a non-GAAP measure calculated by dividing the period-end TCE by period-end tangible assets.

(4) Beginning on January 1, 2014, we calculate our regulatory capital under the Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital under Basel I.

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

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

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

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

(9) Adjusted average assets, for the purpose of calculating our Tier 1 leverage ratio, represent total average assets adjusted for amounts that deducted from Tier 1 capital, predominately goodwill and intangible assets. Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.

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(10) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure. See "MD&A—Capital Management" for additional information.

(11) As of January 1, 2015, risk-weighted assets are calculated under the Basel III Standardized Approach, subject to transition provisions. Prior to January 1, 2015 risk-weighted assets were calculated under Basel I. Includes credit and market risk weighted assets starting in 2016.

(12) Amounts presented are net of tax.

(13) Amounts based on transition provisions for regulatory capital deductions and adjustments of 20% for 2014, 40% for 2015, 60% for 2016 and 80% for 2017.

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Table G—Selected Quarterly Financial Information

(Dollars in millions, except per share data and as noted) (unaudited)	2017 Q4	2017 Q3	2017 Q2	2017 Q1	2016 Q4	2016 Q3	2016 Q2	2016 Q1
Summarized results of operations:								
Interest income	$6,604	$6,420	$6,128	$6,070	$6,009	$5,794	$5,571	$5,517
Interest expense	791	720	655	596	562	517	478	461
Net interest income	5,813	5,700	5,473	5,474	5,447	5,277	5,093	5,056
Provision for credit losses	1,926	1,833	1,800	1,992	1,752	1,588	1,592	1,527
Net interest income after provision for credit losses	3,887	3,867	3,673	3,482	3,695	3,689	3,501	3,529
Non-interest income	1,200	1,285	1,231	1,061	1,119	1,184	1,161	1,164
Non-interest expense	3,779	3,567	3,414	3,434	3,679	3,361	3,295	3,223
Income from continuing operations before income taxes	1,308	1,585	1,490	1,109	1,135	1,512	1,367	1,470
Income tax provision	2,170	448	443	314	342	496	424	452
Income (loss) from continuing operations, net of tax	(862)	1,137	1,047	795	793	1,016	943	1,018
Income (loss) from discontinued operations, net of tax	(109)	(30)	(11)	15	(2)	(11)	(1)	(5)
Net income (loss)	(971)	1,107	1,036	810	791	1,005	942	1,013
Dividends and undistributed earnings allocated to participating securities[1]	(1)	(8)	(8)	(5)	(6)	(6)	(6)	(6)
Preferred stock dividends	(80)	(52)	(80)	(53)	(75)	(37)	(65)	(37)
Net income (loss) available to common stockholders	$(1,052)	$1,047	$948	$752	$710	$962	$871	$970
Common share statistics:								
Basic earnings per common share:[1]								
Net income (loss) from continuing operations	$(1.95)	$2.22	$1.98	$1.53	$1.47	$1.94	$1.70	$1.86
Income (loss) from discontinued operations	(0.22)	(0.06)	(0.02)	0.03	0.00	(0.02)	0.00	(0.01)
Net income (loss) per basic common share	$(2.17)	$2.16	$1.96	$1.56	$1.47	$1.92	$1.70	$1.85
Diluted earnings per common share:[1]								

Net income (loss) from continuing operations	$(1.95)	$2.20	$1.96	$1.51	$1.45	$1.92	$1.69	$1.85
Income (loss) from discontinued operations	(0.22)	(0.06)	(0.02)	0.03	0.00	(0.02)	0.00	(0.01)
Net income (loss) per diluted common share	$(2.17)	$2.14	$1.94	$1.54	$1.45	$1.90	$1.69	$1.84
Weighted-average common shares outstanding (in millions):								
Basic common shares	485.7	484.9	484.0	482.3	483.5	501.1	511.7	523.5
Diluted common shares	485.7	489.0	488.1	487.9	489.2	505.9	516.5	528.0
Balance sheet (average balances):								
Loans held for investment	$252,566	$245,822	$242,241	$241,505	$240,027	$235,843	$230,379	$226,736
Interest-earning assets	330,742	322,015	318,078	318,358	317,853	310,987	302,764	299,456
Total assets	363,045	355,191	349,891	351,641	350,225	343,153	334,479	331,919
Interest-bearing deposits	215,258	213,137	214,412	212,973	206,464	196,913	195,641	194,125
Total deposits	241,562	238,843	240,550	238,550	232,204	222,251	221,146	219,180
Borrowings	58,109	54,271	48,838	53,357	58,624	60,708	54,359	53,761
Common equity	46,350	45,816	44,645	43,833	43,921	45,314	45,640	45,782
Total stockholders' equity	50,710	50,176	49,005	48,193	47,972	49,033	48,934	49,078

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[1] Dividends and undistributed earnings allocated to participating securities and earnings per share are computed independently for each period. Accordingly, the sum of each quarterly amount may not agree to the year-to-date total.

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Glossary and Acronyms

2016 Stock Repurchase Program: On June 29, 2016, we announced that our Board of Directors had authorized the repurchase of up to $2.5 billion of shares of our common stock from the third quarter of 2016 through the end of the second quarter of 2017.

2017 Stock Repurchase Program: On June 28, 2017, we announced that our Board of Directors had authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018. In December 2017, the Board of Directors reduced the authorized repurchases of our common stock to up to $1.0 billion for the remaining 2017 CCAR period, which ends June 30, 2018. Any common stock repurchases for the remainder of the 2017 Stock Repurchase Program are subject to the Federal Reserve not objecting to our revised capital plan for the 2017 CCAR process submitted on December 24, 2017.

Annual Report: References to our “2017 Form 10-K” or “2017 Annual Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017.

Banks: Refers to COBNA and CONA.

Basel Committee: The Basel Committee on Banking Supervision.

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

Basel III Capital Rule: The Federal Baking Agencies issued a rule in July 2013 implementing the Basel III capital framework developed by the Basel Committee as well as certain Dodd-Frank Act and other capital provisions.

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

Cabela’s acquisition: On September 25, 2017, we completed the acquisition from Synovus Bank of credit card assets and related liabilities of World’s Foremost Bank, a wholly-owned subsidiary of Cabela’s Incorporated.

Capital One: Capital One Financial Corporation and its subsidiaries.

Carrying value (with respect to loans): The amount at which a loan is recorded on the consolidated balance sheets. For loans recorded at amortized cost, carrying value is the unpaid principal balance net of unamortized deferred loan origination fees and costs, and unamortized purchase premium or discount. For loans that are or have been on nonaccrual status, the carrying value is also reduced by any net charge-offs that have been recorded and the amount of interest payments applied as a reduction of principal under the cost recovery method. For credit card loans, the carrying value also includes interest that has been billed to the customer. For loans classified as held for sale, carrying value is the lower of carrying value as described in the sentences above, or fair value. For PCI loans, carrying value represents the present value of all expected cash flows including interest that has not yet been accrued, discounted at the effective interest rate, including any valuation allowance for impaired loans.

CECL: In June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance, which becomes effective on January 1, 2020 with early adoption permitted no earlier than January 1, 2019, requires use of a current expected credit loss (“CECL”) model that is based on expected rather than incurred losses, with an anticipated result of more timely loss recognition.

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

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

Company: Capital One Financial Corporation and its subsidiaries.

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

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

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Derivative: A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.
Discontinued operations: The operating results of a component of an entity, as defined by Accounting Standards Codification ("ASC") 205, that are removed from continuing operations when that component has been disposed of or it is management's intention to sell the component.
Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act"): Regulatory reform legislation signed into law on July 21, 2010. This law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of the financial services sector.
Exchange Act: The Securities Exchange Act of 1934.
eXtensible Business Reporting Language ("XBRL"): A language for the electronic communication of business and financial data.
Federal Banking Agencies: The Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation.
Federal Reserve: The Board of Governors of the Federal Reserve System.
FICO score: A measure of consumer credit risk provided by credit bureaus, typically produced from statistical modeling software created by FICO (formerly known as "Fair Isaac Corporation") utilizing data collected by the credit bureaus.
Final LCR Rule: In September 2014, the Federal Banking Agencies issued final rules implementing the Basel III Liquidity Coverage Ratio in the United States. The LCR is calculated by dividing the amount of an institution's high quality, unencumbered liquid assets by its estimated net cash outflow, as defined and calculated in accordance with Final LCR Rule.
Foreign currency derivative contracts: An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.
Foreign exchange contracts: Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.
GreenPoint: Refers to our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc., which was closed in 2007.
GSE or Agency: A government-sponsored enterprise or agency is a financial services corporation created by the United States Congress. Examples of U.S. government agencies include Federal National Mortgage Association ("Fannie Mae"), Federal Home Loan Mortgage Corporation ("Freddie Mac"), Government National Mortgage Association ("Ginnie Mae") and the Federal Home Loan Banks ("FHLB").
HFS acquisition: On December 1, 2015, we acquired the Healthcare Financial Services business of General Electric Capital Corporation, which provides financing to companies in various healthcare sectors, including hospitals, senior housing, medical offices, pharmaceuticals, medical devices and healthcare technology.
Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.
Interest rate sensitivity: The exposure to interest rate movements.
Interest rate swaps: Contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities.
Investment grade: Represents Moody's long-term rating of Baa3 or better; and/or a Standard & Poor's or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered to be non-investment grade.
Investor entities: Entities that invest in community development entities ("CDE") that provide debt financing to businesses and non-profit entities in low-income and rural communities.
Leverage ratio: Tier 1 capital divided by average assets after certain adjustments, as defined by the regulators.
Liquidity risk: The risk that the Company will not be able to meet its future financial obligations as they come due, or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time

period.

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Loan-to-value (“LTV”) ratio: The relationship expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate, autos, etc.) securing the loan.
Managed presentation: A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.
Market risk: The risk that an institution’s earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates or other market factors.
Master netting agreement: An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.
Mortgage-backed security (“MBS”): An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.
Mortgage servicing rights (“MSR”): The right to service a mortgage loan when the underlying loan is sold or securitized. Servicing includes collections for principal, interest and escrow payments from borrowers and accounting for and remitting principal and interest payments to investors.
Net interest margin: The result of dividing net interest income by average interest-earning assets.
Nonperforming loans: Loans that have been placed on nonaccrual status.
North Fork: North Fork Bancorporation, Inc., which was acquired by the Company in 2006.
Option-ARM loans: The option-ARM real estate loan product is an adjustable-rate mortgage loan that initially provides the borrower with the monthly option to make a fully-amortizing, interest-only or minimum fixed payment. After the initial payment option period, usually five years, the recalculated minimum payment represents a fully-amortizing principal and interest payment that would effectively repay the loan by the end of its contractual term.
Other-than-temporary impairment (“OTTI”): An impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and whose value is not expected to recover through the holding period of the security.
Purchased credit-impaired (“PCI”) loans: Loans acquired in a business combination that were recorded at fair value at acquisition and subsequently accounted for based on cash flows expected to be collected in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality.
Public Fund deposits: Deposits that are derived from a variety of political subdivisions such as school districts and municipalities.
Purchase volume: Includes purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale. Excludes cash advance and balance transfer transactions.
Rating agency: An independent agency that assesses the credit quality and likelihood of default of an issue or issuer and assigns a rating to that issue or issuer.
Recorded investment: The amount of the investment in a loan which includes any direct write-down of the investment.
Repurchase agreement: An instrument used to raise short-term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.
Restructuring charges: Charges associated with the realignment of resources supporting various businesses, primarily consisting of severance and related benefits pursuant to our ongoing benefit programs and impairment of certain assets related to business locations and activities being exited.
Return on average assets: Calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.
Return on average common equity: Calculated based on the 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.

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Return on average tangible common equity: A non-GAAP financial measure calculated based on the sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; and (iii) less preferred stock dividends, for the period, divided by average tangible common equity. Our calculation of return on average tangible common equity may not be comparable to similarly-titled measures reported by other companies.
Risk-weighted assets: Consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default.
Securitized debt obligations: A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.
Subprime: For purposes of lending in our Credit Card business, we generally consider FICO scores of 660 or below, or other equivalent risk scores, to be subprime. For purposes of auto lending in our Consumer Banking business, we generally consider FICO scores of 620 or below to be subprime.
Tax Act: The Act to provide for reconciliation pursuant to titles II and V of the concurrent resolution on the budget for fiscal year 2018 enacted on December 22, 2017.
Tangible common equity ("TCE"): A non-GAAP financial measure. Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.
Troubled debt restructuring ("TDR"): A TDR is deemed to occur when the Company modifies the contractual terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.
U.K. PPI Reserve: U.K. payment protection insurance customer refund reserve.
U.S. GAAP: Accounting principles generally accepted in the United States of America. Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S.
Unfunded commitments: Legally binding agreements to provide a defined level of financing until a specified future date.
Variable interest entity ("VIE"): An entity that (i) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (ii) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (iii) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

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Acronyms
ABS: Asset-backed security
AFS: Available for sale
AML: Anti-money laundering
AOCI: Accumulated other comprehensive income
ARM: Adjustable rate mortgage
ASC: Accounting Standards Codification
BHC: Bank holding company
bps: Basis points
CAD: Canadian dollar
CCAR: Comprehensive Capital Analysis and Review
CCP: Central Counterparty Clearinghouse, or Central Clearinghouse
CDE: Community development entities
CECL: Current expected credit loss
CEO: Chief Executive Officer
CFPB: Consumer Financial Protection Bureau
CFTC: Commodity Futures Trading Commission
CIFG: CIFG Assurance North America, Inc. ("U.S. Bank Litigation")
CMBS: Commercial mortgage-backed securities
CME: Chicago Mercantile Exchange
COEP: Capital One (Europe) plc
COF: Capital One Financial Corporation
COSO: Committee of Sponsoring Organizations of the Treadway Commission
CRA: Community Reinvestment Act
CVA: Credit valuation adjustment
DCF: Discounted cash flow
DCM: Designated contract market
DDOS: Distributed denial of service
DIF: Deposit insurance fund
DRR: Designated reserve ratio
DUS: Delegated Underwriting and Servicing
DVA: Debit valuation adjustment
EU: European Union
Fannie Mae: Federal National Mortgage Association
FASB: Financial Accounting Standards Board
FCA: Financial Conduct Authority
FCM: Futures commission merchant
FDIC: Federal Deposit Insurance Corporation
FDICIA: The Federal Deposit Insurance Corporation Improvement Act of 1991
FFIEC: Federal Financial Institutions Examination Council
FHFA: Federal Housing Finance Agency
FHLB: Federal Home Loan Banks
FIS: Fidelity Information Services
FIRREA: Financial Institutions Reform, Recovery and Enforcement Act

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Fitch: Fitch Ratings
FOS: Financial Ombudsman Service
Freddie Mac: Federal Home Loan Mortgage Corporation
FVC: Fair Value Committee
GBP: Great British pound
GDP: Gross domestic product
GDPR: General Data Protection Regulation
Ginnie Mae: Government National Mortgage Association
GSE or Agency: Government-sponsored enterprise
HELOCs: Home equity lines of credit
HFI: Held for investment
HFS: Healthcare Financial Services
LCR: Liquidity coverage ratio
LIBOR: London Interbank Offered Rate
MMDA: Money market deposit accounts
Moody’s: Moody’s Investors Service
MSR: Mortgage servicing rights
NOW: Negotiable order of withdrawal
NSFR: Net stable funding ratio
NYSE: New York Stock Exchange
OCC: Office of the Comptroller of the Currency
OTC: Over-the-counter
PCA: Prompt corrective action
PCI: Purchased credit-impaired
PCCR: Purchased credit card relationship
PPI: Payment protection insurance
PRA: Prudential Regulatory Authority
PSA: Performance share award
PSU: Performance share unit
REO: Real estate owned
RMBS: Residential mortgage-backed securities
RSA: Restricted stock award
RSU: Restricted stock unit
S&P: Standard & Poor’s
SEC: U.S. Securities and Exchange Commission
SEF: Swap execution facility
TARP: Troubled Asset Relief Program
TCE: Tangible common equity
TDR: Troubled debt restructuring
TILA: Truth in Lending Act
TSYS: Total Systems Services, Inc.
U.K.: United Kingdom
U.S.: United States of America
VAC: Valuations Advisory Committee

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Item 7A. Quantitative and Qualitative Disclosures about Market Risk

For a discussion of the quantitative and qualitative disclosures about market risk, see "MD&A—Risk Management—Market Risk Management" and "MD&A—Market Risk Profile."

Item 8. Financial Statements and Supplementary Data

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MANAGEMENT'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The management of Capital One Financial Corporation (the "Company" or "Capital One") is responsible for establishing and maintaining adequate internal control over financial reporting and for the assessment of the effectiveness of internal control over financial reporting. Internal control over financial reporting is a process designed by, or under the supervision of, the Company's principal executive and principal financial officers, or persons performing similar functions, and effected by the Company's Board of Directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external reporting purposes in accordance with U.S. generally accepted accounting principles.

Capital One's internal control over financial reporting includes those policies and procedures that (i) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the Company's assets; (ii) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that the Company's receipts and expenditures are being made only in accordance with authorizations of the Company's management and directors; and (iii) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of the Company's assets that could have a material effect on its financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management conducted an assessment of the effectiveness of the Company's internal control over financial reporting as of December 31, 2017, based on the framework in "2013 Internal Control—Integrated Framework" issued by the Committee of Sponsoring Organizations of the Treadway Commission ("COSO"), commonly referred to as the "2013 Framework."

Based on this assessment, management concluded that, as of December 31, 2017, the Company's internal control over financial reporting was effective based on the criteria established by COSO in the 2013 Framework. Additionally, based upon management's assessment, the Company determined that there were no material weaknesses in its internal control over financial reporting as of December 31, 2017.

The effectiveness of the Company's internal control over financial reporting as of December 31, 2017, has been audited by Ernst & Young LLP, an independent registered public accounting firm, as stated in their accompanying report, which expresses an unqualified opinion on the effectiveness of the Company's internal control over financial reporting as of December 31, 2017.

/s/ RICHARD D. FAIRBANK
Richard D. Fairbank
Chair, Chief Executive Officer and President

/s/ R. SCOTT BLACKLEY
R. Scott Blackley
Chief Financial Officer

February 21, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Shareholders and the Board of Directors of Capital One Financial Corporation:

Opinion on Internal Control over Financial Reporting

We have audited Capital One Financial Corporation's internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control—Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) (the COSO criteria). In our opinion, Capital One Financial Corporation (the "Company") maintained, in all material respects, effective internal control over financial reporting as of December 31, 2017, based on the COSO criteria.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the consolidated balance sheets of Capital One Financial Corporation as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders' equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes, of the Company and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

The Company's management is responsible for maintaining effective internal control over financial reporting and for its assessment of the effectiveness of internal control over financial reporting included in the accompanying Management's Report on Internal Control Over Financial Reporting. Our responsibility is to express an opinion on the Company's internal control over financial reporting based on our audit. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audit in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether effective internal control over financial reporting was maintained in all material respects.

Our audit included obtaining an understanding of internal control over financial reporting, assessing the risk that a material weakness exists, testing and evaluating the design and operating effectiveness of internal control based on the assessed risk, and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion.

Definition and Limitations of Internal Control Over Financial Reporting

A company's internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles. A company's internal control over financial reporting includes those policies and procedures that (1) pertain to the maintenance of records that, in reasonable detail, accurately and fairly reflect the transactions and dispositions of the assets of the company; (2) provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that receipts and expenditures of the company are being made only in accordance with authorizations of management and directors of the company; and (3) provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use, or disposition of the company's assets that could have a material effect on the financial statements.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Also, projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

/s/ Ernst & Young LLP

Tysons, Virginia
February 21, 2018

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REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM
ON THE CONSOLIDATED FINANCIAL STATEMENTS

To the Shareholders and the Board of Directors of Capital One Financial Corporation:

Opinion on the Financial Statements

We have audited the accompanying consolidated balance sheets of Capital One Financial Corporation (the “Company”) as of December 31, 2017 and 2016, and the related consolidated statements of income, comprehensive income, changes in stockholders’ equity and cash flows for each of the three years in the period ended December 31, 2017, and the related notes (collectively referred to as the “financial statements”). In our opinion, the financial statements present fairly, in all material respects, the consolidated financial position of the Company at December 31, 2017 and 2016, and the consolidated results of its operations and its cash flows for each of the three years in the period ended December 31, 2017, in conformity with U.S. generally accepted accounting principles.

We also have audited, in accordance with the standards of the Public Company Accounting Oversight Board (United States) (PCAOB), the Company’s internal control over financial reporting as of December 31, 2017, based on criteria established in Internal Control-Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (2013 framework) and our report dated February 21, 2018 expressed an unqualified opinion thereon.

Basis for Opinion

These financial statements are the responsibility of the Company’s management. Our responsibility is to express an opinion on the Company’s financial statements based on our audits. We are a public accounting firm registered with the PCAOB and are required to be independent with respect to the Company in accordance with the U.S. federal securities laws and the applicable rules and regulations of the Securities and Exchange Commission and the PCAOB.

We conducted our audits in accordance with the standards of the PCAOB. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether due to error or fraud. Our audits included performing procedures to assess the risks of material misstatement of the financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the financial statements. We believe that our audits provide a reasonable basis for our opinion.

/s/ Ernst & Young LLP

We have served as the Company’s auditor since 1994.

Tysons, Virginia
February 21, 2018

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME

(Dollars in millions, except per share-related data)	Year Ended December 31, 2017	2016	2015
Interest income:			
Loans, including loans held for sale	$23,388	$21,203	$18,785
Investment securities	1,711	1,599	1,575
Other	123	89	99
Total interest income	25,222	22,891	20,459
Interest expense:			
Deposits	1,602	1,213	1,091
Securitized debt obligations	327	216	151
Senior and subordinated notes	731	476	330
Other borrowings	102	113	53
Total interest expense	2,762	2,018	1,625
Net interest income	22,460	20,873	18,834
Provision for credit losses	7,551	6,459	4,536
Net interest income after provision for credit losses	14,909	14,414	14,298
Non-interest income:			
Interchange fees, net	2,573	2,452	2,264
Service charges and other customer-related fees	1,597	1,646	1,856
Net securities gains (losses)	65	(11)	(32)
Other	542	541	491
Total non-interest income	4,777	4,628	4,579
Non-interest expense:			
Salaries and associate benefits	5,899	5,202	4,975
Occupancy and equipment	1,939	1,944	1,829
Marketing	1,670	1,811	1,744
Professional services	1,097	1,075	1,120
Communications and data processing	1,177	1,169	1,055
Amortization of intangibles	245	386	430
Other	2,167	1,971	1,843
Total non-interest expense	14,194	13,558	12,996
Income from continuing operations before income taxes	5,492	5,484	5,881
Income tax provision	3,375	1,714	1,869
Income from continuing operations, net of tax	2,117	3,770	4,012
Income (loss) from discontinued operations, net of tax	(135)	(19)	38
Net income	1,982	3,751	4,050
Dividends and undistributed earnings allocated to participating securities	(13)	(24)	(20)
Preferred stock dividends	(265)	(214)	(158)
Net income available to common stockholders	$1,704	$3,513	$3,872
Basic earnings per common share:			
Net income from continuing operations	$3.80	$7.00	$7.08
Income (loss) from discontinued operations	(0.28)	(0.04)	0.07
Net income per basic common share	$3.52	$6.96	$7.15
Diluted earnings per common share:			
Net income from continuing operations	$3.76	$6.93	$7.00
Income (loss) from discontinued operations	(0.27)	(0.04)	0.07

Net income per diluted common share	$3.49	$6.89	$7.07
Dividends declared per common share	$1.60	$1.60	$1.50

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Net income	$1,982	$3,751	$4,050
Other comprehensive income (loss), net of tax:			
Net unrealized gains (losses) on securities available for sale	21	(166)	(248)
Net changes in securities held to maturity	97	104	96
Net unrealized gains (losses) on cash flow hedges	(203)	(198)	110
Foreign currency translation adjustments	84	(79)	(135)
Other	24	6	(9)
Other comprehensive income (loss), net of tax	23	(333)	(186)
Comprehensive income	$2,005	$3,418	$3,864

See Notes to Consolidated Financial
Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS

(Dollars in millions, except per share-related data)	December 31, 2017	December 31, 2016
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 4,458	$ 4,185
Interest-bearing deposits and other short-term investments	9,582	5,791
Total cash and cash equivalents	14,040	9,976
Restricted cash for securitization investors	312	2,517
Securities available for sale, at fair value	37,655	40,737
Securities held to maturity, at carrying value	28,984	25,712
Loans held for investment:		
Unsecuritized loans held for investment	218,806	213,824
Loans held in consolidated trusts	35,667	31,762
Total loans held for investment	254,473	245,586
Allowance for loan and lease losses	(7,502)	(6,503)
Net loans held for investment	246,971	239,083
Loans held for sale, at lower of cost or fair value	971	1,043
Premises and equipment, net	4,033	3,675
Interest receivable	1,536	1,351
Goodwill	14,533	14,519
Other assets	16,658	18,420
Total assets	$ 365,693	$ 357,033
Liabilities:		
Interest payable	$ 413	$ 327
Deposits:		
Non-interest-bearing deposits	26,404	25,502
Interest-bearing deposits	217,298	211,266
Total deposits	243,702	236,768
Securitized debt obligations	20,010	18,826
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	576	992
Senior and subordinated notes	30,755	23,431
Other borrowings	8,940	17,211
Total other debt	40,271	41,634
Other liabilities	12,567	11,964
Total liabilities	316,963	309,519
Commitments, contingencies and guarantees (see Note 19)		
Stockholders' equity:		
Preferred stock (par value $.01 per share; 50,000,000 shares authorized; 4,475,000 shares issued and outstanding as of both December 31, 2017 and 2016)	0	0
Common stock (par value $.01 per share; 1,000,000,000 shares authorized; 661,724,927 and 653,736,607 shares issued as of December 31, 2017 and 2016, respectively, 485,525,340 and 480,218,547 shares outstanding as of December 31, 2017 and 2016, respectively)	7	7
Additional paid-in capital, net	31,656	31,157

Retained earnings	30,700	29,766
Accumulated other comprehensive loss	(926)	(949)
Treasury stock, at cost (par value $.01 per share; 176,199,587 and 173,518,060 shares as of December 31, 2017 and 2016, respectively)	(12,707)	(12,467)
Total stockholders’ equity	48,730	47,514
Total liabilities and stockholders’ equity	$ 365,693	$ 357,033

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY

(Dollars in millions)	Preferred Stock		Common Stock		Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount					
Balance as of December 31, 2014	1,875,000	$ 0	643,557,048	$ 6	$ 27,869	$ 23,973	$ (430)	$ (6,365)	$ 45,053
Comprehensive income (loss)						4,050	(186)		3,864
Dividends—common stock			46,846	0	4	(820)			(816)
Dividends—preferred stock						(158)			(158)
Purchases of treasury stock								(2,441)	(2,441)
Issuances of common stock and restricted stock, net of forfeitures			2,603,953	0	111				111
Exercise of stock options and warrants, tax effects of exercises and restricted stock vesting			2,109,548	0	71				71
Issuances of preferred stock (Series E and Series F)	1,500,000	0			1,472				1,472
Compensation expense for restricted stock awards, restricted stock units and stock options					128				128
Balance as of December 31, 2015	3,375,000	$ 0	648,317,395	$ 6	$ 29,655	$ 27,045	$ (616)	$ (8,806)	$ 47,284
Comprehensive income (loss)						3,751	(333)		3,418
Dividends—common stock			52,338	0	4	(816)			(812)
Dividends—preferred stock						(214)			(214)
Purchases of treasury stock								(3,661)	(3,661)
Issuances of common stock and restricted stock, net of forfeitures			3,272,745	1	130				131
Exercise of stock options, tax effects of exercises and restricted stock vesting			2,094,129	0	102				102
Issuances of preferred stock (Series G and Series H)	1,100,000	0			1,066				1,066
					200				200

Compensation expense for restricted stock awards, restricted stock units and stock options									
Balance as of December 31, 2016	4,475,000	$ 0	653,736,607	$ 7	$ 31,157	$ 29,766	$ (949)	$ (12,467)	$ 47,514
Comprehensive income						1,982	23		2,005
Dividends—common stock			42,613	0	3	(783)			(780)
Dividends—preferred stock						(265)			(265)
Purchases of treasury stock								(240)	(240)
Issuances of common stock and restricted stock, net of forfeitures			4,057,555	0	164				164
Exercises of stock options and warrants			3,888,152	0	124				124
Compensation expense for restricted stock awards, restricted stock units and stock options					208				208
Balance as of December 31, 2017	4,475,000	$ 0	661,724,927	$ 7	$ 31,656	$ 30,700	$ (926)	$ (12,707)	$ 48,730

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Operating activities:			
Income from continuing operations, net of tax	$2,117	$3,770	$4,012
Income (loss) from discontinued operations, net of tax	(135)	(19)	38
Net income	1,982	3,751	4,050
Adjustments to reconcile net income to net cash provided by operating activities:			
Provision for credit losses	7,551	6,459	4,536
Depreciation and amortization, net	2,440	2,428	2,100
Deferred tax provision (benefit)	1,434	(686)	(402)
Net (gains) losses on sales of securities available for sale	(70)	(6)	2
Impairment losses on securities available for sale	5	17	30
Gain on sales of loans held for sale	(72)	(80)	(86)
Stock-based compensation expense	244	239	161
Other	(8)	(11)	0
Loans held for sale:			
Originations and purchases	(8,929)	(8,645)	(6,942)
Proceeds from sales and paydowns	9,595	8,390	6,805
Changes in operating assets and liabilities:			
Changes in interest receivable	(157)	(159)	(72)
Changes in other assets	(714)	(1,907)	(596)
Changes in interest payable	85	28	45
Changes in other liabilities	1,157	2,013	575
Net change from discontinued operations	(361)	25	(79)
Net cash from operating activities	14,182	11,856	10,127
Investing activities:			
Securities available for sale:			
Purchases	(12,412)	(14,154)	(12,200)
Proceeds from paydowns and maturities	7,213	7,867	7,742
Proceeds from sales	8,181	4,146	4,379
Securities held to maturity:			
Purchases	(5,885)	(3,787)	(4,277)
Proceeds from paydowns and maturities	2,594	2,681	2,163
Loans:			
Net changes in loans held for investment	(12,315)	(22,036)	(18,575)
Principal recoveries of loans previously charged off	1,951	1,493	1,498
Purchases of premises and equipment	(1,018)	(779)	(532)
Net cash from acquisition activities	(3,187)	(629)	(9,314)
Net cash from other investing activities	(663)	(432)	(610)
Net cash from investing activities	(15,541)	(25,630)	(29,726)

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Financing activities:			
Deposits and borrowings:			
Changes in deposits	$6,993	$19,031	$12,163

Issuance of securitized debt obligations	5,983	6,259	5,062
Maturities and paydowns of securitized debt obligations	(7,233)	(3,540)	(500)
Issuance of senior and subordinated notes and long-term FHLB advances	35,426	22,984	31,830
Maturities and paydowns of senior and subordinated notes and long-term FHLB advances	(36,554)	(24,170)	(9,579)
Changes in other borrowings	(400)	11	(16,066)
Common stock:			
Net proceeds from issuances	164	131	111
Dividends paid	(780)	(812)	(816)
Preferred stock:			
Net proceeds from issuances	0	1,066	1,472
Dividends paid	(265)	(214)	(158)
Purchases of treasury stock	(240)	(3,661)	(2,441)
Proceeds from share-based payment activities	124	142	85
Net cash from financing activities	3,218	17,227	21,163
Changes in cash, cash equivalents and restricted cash for securitization investors	1,859	3,453	1,564
Cash, cash equivalents and restricted cash for securitization investors, beginning of the period	12,493	9,040	7,476
Cash, cash equivalents and restricted cash for securitization investors, ending of the period	$14,352	$12,493	$9,040
Supplemental cash flow information:			
Non-cash items:			
Net transfers from loans held for investment to loans held for sale	$674	$552	$268
Securitized debt obligations assumed in acquisition	2,484	0	0
Loans held for sale acquired by assuming other borrowings	283	0	0
Interest paid	2,772	2,250	1,643
Income tax paid	1,187	2,121	1,732

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
The Company
Capital One Financial Corporation, a Delaware Corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of December 31, 2017, 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."
We also offer products outside of the United States of America ("U.S.") principally through Capital One (Europe) plc ("COEP"), an indirect subsidiary of COBNA organized and located in the United Kingdom ("U.K."), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card loans. Our branch of COBNA in Canada also has the authority to provide credit card loans.
Our principal operations are currently organized for management reporting purposes into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. We provide details on our business segments, the integration of recent acquisitions, if any, into our business segments and the allocation methodologies and accounting policies used to derive our business segment results in "Note 18—Business Segments."
Basis of Presentation and Use of Estimates
The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. Certain prior period amounts have been reclassified to conform to the current period presentation.
Principles of Consolidation
The consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE"). All significant intercompany account balances and transactions have been eliminated.
Voting Interest Entities
Voting interest entities are entities that have sufficient equity and provide the equity investors voting rights that give them the power to make significant decisions relating to the entity's operations. Since a controlling financial interest in an entity is typically obtained through ownership of a majority voting interest, we consolidate our majority-owned subsidiaries and other voting interest entities in which we hold, directly or indirectly, more than 50% of the voting rights or where we exercise control through other contractual rights.
Investments in entities where we do not have a controlling financial interest but we have significant influence over the entity's financial and operating decisions (generally defined as owning a voting interest of 20% to 50%) are accounted for under the equity method. If we own less than 20% of a voting interest entity, we generally carry the investment at cost, except marketable equity

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securities, which we carry at fair value with changes in fair value included in accumulated other comprehensive income ("AOCI"). We report investments accounted for under the equity or cost method in other assets on our consolidated balance sheets, and include our share of income or loss on equity method investments and dividends on cost method investments in other non-interest income in our consolidated statements of income.

Variable Interest Entities

VIEs are entities that, by design, either (i) lack sufficient equity to permit the entity to finance its activities without additional subordinated financial support from other parties; or (ii) have equity investors that do not have the ability to make significant decisions relating to the entity's operations through voting rights, or do not have the obligation to absorb the expected losses, or do not have the right to receive the residual returns of the entity. The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. An entity is deemed to be the primary beneficiary of a VIE if that entity has both (i) the power to direct the activities of the VIE that most significantly impact the VIE's economic performance; and (ii) the obligation to absorb losses or the right to receive benefits that could potentially be significant to the VIE.

In determining whether we are the primary beneficiary of a VIE, we consider both qualitative and quantitative factors regarding the nature, size and form of our involvement with the VIE, such as our role in establishing the VIE and our ongoing rights and responsibilities; our economic interests, including debt and equity investments, servicing fees and other arrangements deemed to be variable interests in the VIE; the design of the VIE, including the capitalization structure, subordination of interests, payment priority, relative share of interests held across various classes within the VIE's capital structure and the reasons why the interests are held by us.

We perform on-going reassessments to evaluate whether changes in an entity's capital structure or changes in the nature of our involvement with the entity result in a change to the VIE designation or a change to our consolidation conclusion. See "Note 6—Variable Interest Entities and Securitizations" for further details.

Cash and Cash Equivalents

Cash and cash equivalents include cash and due from banks, and interest-bearing deposits and other-short term investments, all of which, if applicable, have stated maturities of three months or less when acquired.

Securities Resale and Repurchase Agreements

Securities purchased under resale agreements and securities loaned or sold under agreements to repurchase, principally U.S. government and agency obligations, are not accounted for as sales but as collateralized financing transactions and recorded at the amounts at which the securities were acquired or sold, plus accrued interest. We continually monitor the market value of these securities and deliver additional collateral to or obtain additional collateral from counterparties, as appropriate.

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"); Agency commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other securities. The accounting and measurement framework for our investment securities differs depending on the security classification. 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. Securities that we may sell prior to maturity in response to changes in our investment strategy, liquidity needs, interest rate risk profile or for other reasons are classified as available for sale. Securities that we have the intent and ability to hold until maturity are classified as held to maturity. We report securities available for sale on our consolidated balance sheets at fair value with unrealized gains or losses recorded, net of tax, as a component of AOCI. We report securities held to maturity on our consolidated balance sheets at carrying value. Carrying value generally equals amortized cost. Investment securities transferred into the held to maturity category from the available for sale category are recorded at fair value at the date of transfer. Any unrealized gains or losses at the transfer date are thereafter included in AOCI. Such unrealized gains or losses are accreted over the remaining life of the security and are expected to offset the amortization of the related premium or

discount created upon the investment securities transfer into the held to maturity category, with no expected impact on future net income.

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CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Unamortized premiums, discounts and other basis adjustments are recognized in interest income over the contractual lives of the securities using the effective interest method. We record purchases and sales of investment securities on a trade date basis. Realized gains or losses from the sale of debt securities are computed using the first in first out method of identification, and are included in non-interest income in our consolidated statements of income. If we intend to sell an available for sale security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in our consolidated statements of income.

We regularly evaluate our securities whose values have declined below amortized cost to assess whether the decline in fair value represents an OTTI. Amortized cost reflects historical cost adjusted for amortization of premiums, accretion of discounts and any previously recorded impairments. We discuss our assessment and accounting for OTTI in "Note 3—Investment Securities." We discuss the techniques we use in determining the fair value of our investment securities in "Note 17—Fair Value Measurement."

Our investment portfolio also includes certain acquired debt securities that were deemed to be credit impaired at the acquisition date, and therefore are accounted for in accordance with accounting guidance for purchased credit-impaired ("PCI") loans and debt securities. These securities are recorded at fair value at the acquisition date using the estimated cash flows we expect to collect discounted by the prevailing market interest rate. The difference between the contractually required payments due and the undiscounted cash flows we expect to collect at acquisition, considering the impact of prepayments, is referred to as the nonaccretable difference. The nonaccretable difference reflects estimated future credit losses expected to be incurred over the life of the security, and is neither accreted into income nor recorded on our consolidated balance sheet. The excess of the undiscounted cash flows expected to be collected over the estimated fair value of credit-impaired debt securities at acquisition is referred to as the accretable yield, which is accreted into interest income using an effective yield method over the remaining life of the security. Decreases in expected cash flows attributable to credit result in the recognition of OTTI. Significant increases in expected cash flows are recognized prospectively over the remaining life of the security as an adjustment to the accretable yield. See "Loans Acquired" section of this Note for further discussion of accounting guidance for purchased credit-impaired loans and debt securities.

Loans

Our loan portfolio consists of loans held for investment, including loans underlying our consolidated securitization trusts, and loans held for sale, and is divided into three portfolio segments: credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card loans. Consumer banking loans consist of auto, home and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial, and small-ticket commercial real estate loans.

Loan Classification

Upon origination or purchase, we classify loans as held for investment or held for sale based on our investment strategy and management's intent and ability with regard to the loans which may change over time. The accounting and measurement framework for loans differs depending on the loan classification, whether the loans are originated or purchased and whether purchased loans are considered credit-impaired at the date of acquisition. The presentation within the consolidated statements of cash flows is based on management's intent at acquisition or origination. Cash flows related to loans held for investment are included in cash flows from investing activities on our consolidated statements of cash flows. Cash flows related to loans held for sale are included in cash flows from operating activities on our consolidated statements of cash flows.

Loans Held for Investment

Loans that we have the ability and intent to hold for the foreseeable future and loans associated with consolidated securitization transactions are classified as held for investment. Loans classified as held for investment, except PCI loans accounted for based upon expected cash flows described below, are reported at their amortized cost, which is the outstanding principal balance, adjusted for any unearned income, unamortized deferred fees and costs, unamortized

premiums and discounts and charge-offs. Credit card loans also include billed finance charges and fees, net of the estimated uncollectible amount.

Interest income is recognized on performing loans held for investment on an accrual basis. We generally defer loan origination fees and direct loan origination costs on originated loans, premiums and discounts on purchased loans and loan commitment fees. We recognize these amounts in interest income as yield adjustments over the life of the loan and/or commitment period using the effective interest method. For credit card loans, loan origination fees and direct loan origination costs are amortized on a straight-

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line basis over a 12-month period. We establish an allowance for loan losses for probable and incurred losses inherent in our held for investment loan portfolio as of each balance sheet date. Loans held for investment are subject to our allowance for loan and lease losses methodology described below under "Allowance for Loan and Lease Losses."

Loans Held for Sale

Loans purchased or originated with the intent to sell or for which we do not have the ability and intent to hold for the foreseeable future are classified as held for sale. Interest on these loans is recognized on an accrual basis. These loans are recorded at the lower of cost or fair value. Loan origination fees and direct loan origination costs are deferred until the loan is sold and are then recognized as part of the total gain or loss on sale. The fair value of loans held for sale is determined on an aggregate portfolio basis for each loan type.

If a loan is transferred from held for investment to held for sale, on the transfer date, any decline in fair value related to credit is recorded as a charge-off and amortization of deferred loan origination fees and costs ceases. Subsequent to transfer, we report write-downs or recoveries in fair value up to the carrying value at the date of transfer and realized gains or losses on loans held for sale in our consolidated statements of income as a component of other non-interest income. We calculate the gain or loss on loan sales as the difference between the proceeds received and the carrying value of the loans sold, net of the fair value of any residual interests retained.

Loans Acquired

All purchased loans, including loans transferred in a business combination, are initially recorded at fair value, which includes consideration of expected future losses, as of the date of the acquisition. We account for purchased loans under the accounting guidance for purchased credit-impaired loans and debt securities, which is based upon expected cash flows, if the purchased loans have a discount attributable, at least in part, to credit deterioration and they are not specifically scoped out of the guidance. We refer to these purchased loans that are subsequently accounted for based on expected cash flows to be collected as "PCI loans." Other purchased loans that do not meet the criteria described above or are specifically scoped out of this guidance are accounted for based on contractual cash flows.

Loans Acquired and Accounted for Based on Expected Cash Flows

In accounting for purchased loans based on expected cash flows, we first determine the contractually required payments due, which represent the total undiscounted amount of all uncollected principal and interest payments, adjusted for the effect of estimated prepayments. We then estimate the undiscounted cash flows we expect to collect, incorporating several key assumptions including expected default rates, loss severities and the amount and timing of prepayments. We estimate the fair value by discounting the estimated cash flows we expect to collect using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value at acquisition. We may aggregate loans acquired in the same fiscal quarter into one or more pools if the loans have common risk characteristics. A pool is then accounted for as a single asset, with a single composite interest rate and an aggregate fair value and expected cash flows.

The excess of cash flows expected to be collected over the estimated fair value of purchased loans is referred to as the accretable yield. This amount is not recorded on our consolidated balance sheets, but is accreted into interest income over the life of the loan, or pool of loans, using the effective interest method. The difference between total contractual payments on the loans and all expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible.

Subsequent to acquisition, we evaluate our estimate of cash flows expected to be collected on a quarterly basis. These evaluations require the use of key assumptions and estimates similar to those used in estimating the initial fair value at acquisition. Subsequent changes in the estimated cash flows expected to be collected may result in changes in the accretable yield and nonaccretable difference or reclassifications from the nonaccretable difference to the accretable yield. Decreases in expected cash flows resulting from credit deterioration subsequent to acquisition will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, PCI loans are not classified as delinquent, nonperforming or criticized, as we expect to collect

our net investment in these loans. Increases in the cash flows expected to be collected would first reduce any previously recorded allowance for loan and lease losses established subsequent to acquisition. The excess over the recorded allowance for loan and lease losses would result in a reclassification to the accretable yield from the nonaccretable difference and an increase in interest income recognized over the remaining life of the loan or pool of loans. Disposals of loans in the form of

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sales to third parties, receipt of payment in full or in part by the borrower, and foreclosure of the collateral, result in removal of the loan from the PCI loans portfolio. See "Note 4—Loans" for additional information.

Loans Acquired and Accounted for Based on Contractual Cash Flows

To determine the fair value of loans at acquisition in a business combination, we estimate discounted contractual cash flows due using an observable market rate of interest, when available, adjusted for factors that a market participant would consider in determining fair value. In determining fair value, contractual cash flows are adjusted to include prepayment estimates based upon trends in default rates and loss severities. The difference between the fair value and the contractual cash flows is recorded as a loan discount or premium at acquisition. Subsequent to acquisition, the loans are classified and accounted for as either held for investment or held for sale based on management's ability and intent with regard to the loans. Loans held for investment are subject to our allowance for loan and lease losses methodology described below under "Allowance for Loan and Lease Losses."

We are permitted to aggregate loans acquired in the same fiscal quarter into one or more pools if the loans have common risk characteristics. If we elect to pool loans, a pool is then accounted for as a single asset with a single composite interest rate and an aggregate fair value and expected cash flows.

Loan Modifications and Restructurings

As part of our loss mitigation efforts, we may provide modifications to a borrower experiencing financial difficulty to improve long-term collectability of the loan and to avoid the need for foreclosure or repossession of collateral. A loan modification in which a concession is granted to a borrower experiencing financial difficulty is accounted for and reported as a troubled debt restructuring ("TDR"). Our loan modifications typically include an extension of the loan term, a reduction in the interest rate, a reduction in the loan balance, or a combination of these concessions. We describe our accounting for and measurement of impairment on TDR loans below under "Impaired Loans." See "Note 4—Loans" for additional information on our loan modifications and restructurings.

Delinquent and Nonperforming Loans

The entire balance of a loan is considered contractually delinquent if the minimum required payment is not received by the first statement cycle date equal to or following the due date specified on the customer's billing statement. Delinquency is reported on loans that are 30 or more days past due. Interest and fees continue to accrue on past due loans until the date the loan is placed on nonaccrual status, if applicable. We generally place loans on nonaccrual status when we believe the collectability of interest and principal is not reasonably assured.

Nonperforming loans generally include loans that have been placed on nonaccrual status, but we do not report loans classified as held for sale as nonperforming.

Our policies for classifying loans as nonperforming, by loan category, are as follows:

- Credit card loans: As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"), our policy is generally to exempt credit card loans from being classified as nonperforming, as these loans are generally charged off in the period the account becomes 180 days past due. Consistent with industry conventions, we generally continue to accrue interest and fees on delinquent credit card loans until the loans are charged-off.
- Consumer banking loans: We classify consumer banking loans as nonperforming when we determine that the collectability of all interest and principal on the loan is not reasonably assured, generally when the loan becomes 90 days past due.
- Commercial banking loans: We classify commercial banking loans as nonperforming as of the date we determine that the collectability of all interest and principal on the loan is not reasonably assured.
- Modified loans and troubled debt restructurings: Modified loans, including TDRs, that are current at the time of the restructuring remain on accrual status if there is demonstrated performance prior to the restructuring and continued performance under the modified terms is expected. Otherwise, the modified loan is classified as nonperforming and placed on nonaccrual status until the borrower demonstrates a sustained period of performance over several payment cycles, generally six months of consecutive payments, under the modified terms of the loan.

• PCI loans: PCI loans are not classified as delinquent, nonperforming or criticized.

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Interest and fees accrued but not collected at the date a loan is placed on nonaccrual status are reversed against earnings. In addition, the amortization of net deferred loan fees is suspended. Interest and fee income is subsequently recognized only upon the receipt of cash payments. However, if there is doubt regarding the ultimate collectability of loan principal, all cash received is generally applied against the principal balance of the loan. Nonaccrual loans are generally returned to accrual status when all principal and interest is current and repayment of the remaining contractual principal and interest is reasonably assured, or when the loan is both well-secured and in the process of collection and collectability is no longer doubtful.

Impaired Loans

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

Loans defined as individually impaired, based on applicable accounting guidance, include larger-balance nonperforming loans and TDR loans. Loans modified in a TDR continue to be reported as impaired until maturity.

Our policies for identifying loans as individually impaired, by loan category, are as follows:

- Credit card loans: Credit card loans that have been modified in a troubled debt restructuring are identified and accounted for as individually impaired.
- Consumer banking loans: Consumer loans that have been modified in a troubled debt restructuring are identified and accounted for as individually impaired.
- Commercial banking loans: Commercial loans classified as nonperforming and commercial loans that have been modified in a troubled debt restructuring are reported as individually impaired.

The majority of individually impaired loans are evaluated for an asset-specific allowance. We generally measure impairment and the related asset-specific allowance for individually impaired loans based on the difference between the recorded investment of the loan and the present value of the expected future cash flows, discounted at the original effective interest rate of the loan at the time of modification. If the loan is collateral dependent, we measure impairment based upon the fair value of the underlying collateral, which we determine based on the current fair value of the collateral less estimated selling costs, instead of discounted cash flows. Loans are identified as collateral dependent if we believe that collateral is the sole source of repayment.

Charge-Offs

We charge off loans as a reduction to the allowance for loan and lease losses when we determine the loan is uncollectible and record subsequent recoveries of previously charged off amounts as an increase to the allowance for loan and lease losses. We exclude accrued and unpaid finance charges and fees and certain fraud losses from charge-offs. Costs to recover charged-off loans are recorded as collection expense and included in our consolidated statements of income as a component of other non-interest expense as incurred. Our charge-off time frames by loan type are presented below.

- Credit card loans: We generally charge-off credit card loans in the period the account becomes 180 days past due. We charge off delinquent credit card loans for which revolving privileges have been revoked as part of loan workout when the account becomes 120 days past due. Credit card loans in bankruptcy are generally charged-off by the end of the month following 30 days after the receipt of a complete bankruptcy notification from the bankruptcy court. Credit card loans of deceased account holders are charged-off by the end of the month following 60 days of receipt of notification.
- Consumer banking loans: We generally charge-off consumer banking loans at the earlier of the date when the account is a specified number of days past due or upon repossession of the underlying collateral. Our charge-off time frame is 180 days for home loans and 120 days for auto loans. Small business banking loans generally charge off at 120 days

past due based on when unpaid principal loan amounts are deemed uncollectible. We calculate the initial charge-off amount for home loans based on the excess of our recorded investment in the loan over the fair value of the underlying property less estimated selling costs as of the date of the charge-off. We update our home value estimates on a regular basis and may recognize additional charge-offs for subsequent declines in home values. In the second quarter of 2017, due to clarified regulatory

guidance, we implemented changes in accounting estimates for auto and home loans where the borrower has filed for bankruptcy and the loan has not been reaffirmed, such that they charge off in the period that the loan is 60 days from the bankruptcy notification date, regardless of delinquency status. Auto and home loans that have been discharged under Chapter 7 bankruptcy, have not been reaffirmed and have not reached 60 days from the bankruptcy notification date are charged off at the end of the month in which the bankruptcy discharge occurs. Remaining consumer loans generally are charged off within 40 days of receipt of notification from the bankruptcy court. Consumer loans of deceased account holders are charged off by the end of the month following 60 days of receipt of notification.

- Commercial banking loans: We charge off commercial loans in the period we determine that the unpaid principal loan amounts are uncollectible.
- PCI loans: We do not record charge-offs on PCI loans that are meeting or exceeding our performance expectations as of the date of acquisition, as the fair values of these loans already reflect a discount for expected future credit losses. We record charge-offs on PCI loans only if actual losses exceed estimated credit losses incorporated into the fair value recorded at acquisition.

Allowance for Loan and Lease Losses

We maintain an allowance for loan and lease losses ("allowance") that represents management's best estimate of incurred loan and lease losses inherent in our held for investment portfolio as of each balance sheet date. The provision for credit losses reflects credit losses we believe have been incurred and will eventually be recognized over time in our charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance and subsequent recoveries are added back.

Management performs a quarterly analysis of our loan portfolio to determine if impairment has occurred and to assess the adequacy of the allowance based on historical and current trends as well as other factors affecting credit losses.

We apply documented systematic methodologies to separately calculate the allowance for our consumer loan and commercial loan portfolios. Our allowance for loan and lease losses consists of three components that are allocated to cover the estimated probable losses in each loan portfolio based on the results of our detailed review and loan impairment assessment process: (i) a component for loans collectively evaluated for impairment; (ii) an asset-specific component for individually impaired loans; and (iii) a component related to PCI loans that have experienced significant decreases in expected cash flows subsequent to acquisition. Each of our allowance components is supplemented by an amount that represents management's qualitative judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the allowance. Management's judgment involves an assessment of subjective factors, such as process risk, modeling assumption and adjustment risks and probable internal and external events that will likely impact losses.

Our consumer loan portfolio consists of smaller-balance, homogeneous loans, divided into four primary portfolio segments: credit card loans, auto loans, residential home loans and retail banking loans. Each of these portfolios is further divided by our business units into pools based on common risk characteristics, such as origination year, contract type, interest rate and geography, which are collectively evaluated for impairment. The commercial loan portfolio is primarily composed of larger-balance, non-homogeneous loans. These loans are subject to individual reviews that result in internal risk ratings. In assessing the risk rating of a particular loan, among the factors we consider are the financial condition of the borrower, geography, collateral performance, historical loss experience, and industry-specific information that management believes is relevant in determining the occurrence of a loss event and measuring impairment. These factors are based on an evaluation of historical and current information, and involve subjective assessment and interpretation. Emphasizing one factor over another or considering additional factors could impact the risk rating assigned to that loan.

The component of the allowance related to credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation, which is supplemented by management judgment as described above. Because of the homogeneous nature of our consumer loan portfolios, the allowance is based on the aggregated portfolio segment evaluations. The allowance is established through a process that begins with estimates of incurred

losses in each pool based upon various statistical analyses. Loss forecast models are utilized to estimate probable losses incurred and consider several portfolio indicators including, but not limited to, historical loss experience, account seasoning, the value of collateral underlying secured loans, estimated foreclosures or defaults based on observable trends, delinquencies, bankruptcy filings, unemployment, credit bureau scores and general economic and business trends. Management believes these factors are relevant in estimating probable losses incurred and also considers an evaluation of overall portfolio credit quality based on indicators such as changes in our credit evaluation, underwriting and collection

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management policies, the effect of other external factors such as competition and legal and regulatory requirements, general economic conditions and business trends, and uncertainties in forecasting and modeling techniques used in estimating our allowance. We update our consumer loss forecast models and portfolio indicators on a quarterly basis to incorporate information reflective of the current economic environment.

The component of the allowance for commercial loans that we collectively evaluate for impairment is based on our historical loss experience for loans with similar risk characteristics and consideration of the current credit quality of the portfolio, which is supplemented by management judgment as described above. We apply internal risk ratings to commercial loans, which we use to assess credit quality and derive a total loss estimate based on an estimated probability of default (“default rate”) and loss given default (“loss severity”). Management may also apply judgment to adjust the loss factors derived, taking into consideration both quantitative and qualitative factors, including general economic conditions, industry-specific and geographic trends, portfolio concentrations, trends in internal credit quality indicators, and current and past underwriting standards that have occurred but are not yet reflected in the historical data underlying our loss estimates.

The asset-specific component of the allowance covers smaller-balance homogeneous consumer loans whose terms have been modified in a TDR and larger-balance nonperforming, non-homogeneous commercial loans. As discussed above under “Impaired Loans,” we generally measure the asset-specific component of the allowance based on the difference between the recorded investment of individually impaired loans and the present value of expected future cash flows. When the present value of expected future cash flows is lower than the recorded investment of the loan, impairment is recognized through the provision for credit losses. If the loan is collateral dependent, we measure impairment based on the current fair value of the collateral less estimated selling costs, instead of discounted cash flows. The asset-specific component of the allowance for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for larger-balance impaired loans is individually calculated for each loan. Key considerations in determining the allowance include the borrower’s overall financial condition, resources and payment history, prospects for support from financially responsible guarantors, and when applicable, the estimated realizable value of any collateral.

We record all purchased loans at fair value at acquisition. Applicable accounting guidance prohibits the carry over or creation of valuation allowances in the initial accounting for impaired loans acquired in a transfer. Subsequent to acquisition, decreases in expected principal cash flows of PCI loans would trigger the recognition of impairment through our provision for credit losses. Subsequent increases in expected cash flows would first result in a recovery of any previously recorded allowance, to the extent applicable, and then increase the accretable yield. Write-downs on PCI loans in excess of the nonaccretable difference are charged against the allowance for loan and lease losses. See “Note 4—Loans” for information on loan portfolios associated with acquisitions.

In addition to the allowance, we also estimate probable losses related to contractually binding unfunded lending commitments, such as letters of credit, financial guarantees, and binding unfunded loan commitments. The provision for unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve is included in other liabilities on our consolidated balance sheets. Unfunded lending commitments are subject to individual reviews and are analyzed and segregated by risk according to our internal risk rating scale, which we use to assess credit quality and derive a total loss estimate. We assess these risk classifications, taking into consideration both quantitative and qualitative factors, including historical loss experience, utilization assumptions, current economic conditions, performance trends within specific portfolio segments and other pertinent information to estimate the reserve for unfunded lending commitments.

Determining the appropriateness of the allowance is complex and requires judgment by management about the effect of matters that are inherently uncertain. Subsequent evaluations of the loan portfolio, in light of the factors then prevailing, may result in significant changes in the allowance and the reserve for unfunded lending commitments in future periods.

Securitization of Loans

Our loan securitization activities primarily involve the securitization of credit card loans, which have provided a source of funding for us. See "Note 6—Variable Interest Entities and Securitizations" for additional details. Loan securitization involves the transfer of a pool of loan receivables from our portfolio to a trust. The trust then sells an undivided interest in the pool of loan receivables to third-party investors through the issuance of debt securities and transfers the proceeds from the debt issuance to us as consideration for the loan receivables transferred. The debt securities are collateralized by the transferred receivables from our portfolio. We remove loans from our consolidated balance sheets when securitizations qualify as sales to non-consolidated VIEs, recognize assets retained and liabilities assumed at fair value and record a gain or loss on the transferred loans. Alternatively, when the

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transfer does not qualify as a sale but instead is considered a secured borrowing or when the sale is to a consolidated VIE, the asset will remain on our consolidated balance sheets with an offsetting liability recognized for the amount of proceeds received.

Premises and Equipment

Premises and equipment, including leasehold improvements, are carried at cost less accumulated depreciation and amortization. Land is carried at cost. We capitalize direct costs incurred during the application development stage of internally developed software projects. Depreciation and amortization expenses are calculated using the straight-line method over the estimated useful lives of the assets. Useful lives for premises and equipment are estimated as follows:

Premises and Equipment	Useful Lives
Buildings and improvement	5-39 years
Furniture and equipment	3-10 years
Computer software	3-5 years
Leasehold improvements	Lesser of useful life or the remaining fixed non-cancelable lease term

Expenditures for maintenance and repairs are expensed as incurred and gains or losses upon disposition are recognized in our consolidated statements of income as realized.

Goodwill and Intangible Assets

Goodwill represents the excess of the acquisition price of an acquired business over the fair value of assets acquired and liabilities assumed and is assigned to one or more reporting units at the date of acquisition. A reporting unit is defined as an operating segment, or a business unit that is one level below an operating segment. Goodwill is not amortized but is tested for impairment at the reporting unit level annually or more frequently if adverse circumstances indicate that it is more likely than not that the carrying amount of a reporting unit exceeds its fair value. These indicators include a sustained, significant decline in the Company’s stock price, a decline in its expected future cash flows, significant disposition activity, a significant adverse change in the economic or business environment, and the testing for recoverability of a significant asset group, among others. The annual goodwill impairment test, performed as of October 1 of each year, is a two-step test. The first step identifies whether there is potential impairment by comparing the fair value of a reporting unit to its carrying amount, including goodwill. If fair value is less than the carrying amount, the second step of the impairment test is required to measure the amount of any potential impairment loss. In 2017, we had four reporting units: Credit Card, Auto, Other Consumer Banking and Commercial Banking.

Intangible assets with finite useful lives are amortized on either an accelerated or straight-line basis over their estimated useful lives and are evaluated for impairment whenever events or changes in circumstances indicate the carrying amount of the assets may not be recoverable. See “Note 7—Goodwill and Intangible Assets” for additional information.

Mortgage Servicing Rights

Mortgage servicing rights (“MSRs”) are initially recorded at fair value when mortgage loans are sold or securitized in the secondary market and the right to service these loans is retained for a fee. Subsequently, our consumer MSRs are carried at fair value on our consolidated balance sheets with changes in fair value recognized in non-interest income. Our commercial MSRs are subsequently accounted for under the amortization method and are periodically evaluated for impairment, which is recognized as a reduction in non-interest income. See “Note 7—Goodwill and Intangible Assets” and “Note 17—Fair Value Measurement” for additional information.

Foreclosed Property and Repossessed Assets

Foreclosed property and repossessed assets obtained through our lending activities typically include commercial and residential real estate or personal property, such as automobiles, and are recorded at net realizable value. For home loans collateralized by residential real estate, we reclassify loans to foreclosed property at the earlier of when we obtain legal title to the residential real estate property or when the borrower conveys all interest in the property to us. For all other foreclosed property and repossessed assets, we reclassify the loan to repossessed assets upon

repossession of the property in satisfaction of the loan. Net realizable value is the estimated fair value of the underlying collateral less estimated selling costs and is based on appraisals, when available.

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Subsequent to initial recognition, foreclosed property and repossessed assets are recorded at the lower of our initial cost basis or net realizable value, which is routinely monitored and updated. Any changes in net realizable value and gains or losses realized from disposition of the property are recorded in non-interest expense. See "Note 17—Fair Value Measurement" for details.

Restricted Equity Investments

We have investments in Federal Home Loan Banks ("FHLB") stock and in the Board of Governors of the Federal Reserve System ("Federal Reserve") stock. These investments, which are included in other assets on our consolidated balance sheets, are not marketable and are carried at cost. We assess these investments for OTTI in accordance with applicable accounting guidance for evaluating impairment.

Litigation

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation-related matters, including mortgage representation and warranty related matters, that arise from the ordinary course of our business activities when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. See "Note 19—Commitments, Contingencies, Guarantees and Others" for additional information.

Customer Rewards Reserve

We offer products, primarily credit cards, which include programs that allow members to earn rewards that can be redeemed for cash (primarily in the form of statement credits), gift cards, airline tickets or merchandise, based on account activity. The amount of reward that a customer earns varies based on the terms and conditions of the rewards program and product. When rewards are earned by a customer, rewards costs are generally recorded as an offset to interchange income, with a corresponding increase to the customer rewards reserve. The customer rewards reserve is computed based on the estimated future cost of earned rewards that are expected to be redeemed. The customer rewards reserve is reduced as rewards are redeemed. In estimating the customer rewards reserve, we consider historical redemption and spending behavior, as well as the terms and conditions of the current rewards programs, among other factors. The customer rewards reserve is sensitive to changes in the redemption mix and rate. We expect the vast majority of all rewards earned will eventually be redeemed. The customer rewards reserve, which is included in other liabilities on our consolidated balance sheets, totaled $3.9 billion and $3.6 billion as of December 31, 2017 and 2016, respectively.

Revenue Recognition

Interest Income and Fees

Interest income and fees on loans and investment securities are recognized based on the contractual provisions of the underlying arrangements.

Loan origination fees and costs and premiums and discounts on loans held for investment are deferred and generally amortized into interest income as yield adjustments over the contractual life and/or commitment period using the effective interest method. In certain circumstances, we elect to factor prepayment estimates into the calculation of the constant effective yield necessary to apply the interest method. Prepayment estimates are based on historical prepayment data, existing and forecasted interest rates, and economic data. For credit card loans, loan origination fees and direct loan origination costs are amortized on a straight-line basis over a 12-month period.

Unamortized premiums, discounts and other basis adjustments on investment securities are recognized in interest income over the contractual lives of the securities using the effective interest method.

Finance charges and fees on credit card loans, net of amounts that we consider uncollectible, are included in loan receivables and revenue when the fees are earned. Annual membership fees are deferred and amortized into income over 12 months on a straight line basis. We continue to accrue finance charges and fees on credit card loans until the account is charged-off. Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred principal losses on our credit card loan receivables.

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Interchange Income

Interchange income represents fees for standing ready to authorize and providing settlement on credit card transactions processed through the MasterCard® ("MasterCard") and Visa® ("Visa") interchange networks. The levels and structure of interchange rates are set by MasterCard and Visa and can vary based on cardholder purchase volumes. We recognize interchange income upon settlement with the interchange networks.

Card Partnership Agreements

Our partnership agreements relate to alliances with retailers and other partners to provide lending and other services to mutual customers. We primarily issue private-label and co-branded credit card loans to these customers over the term of the partnership agreements, which typically range from two to ten years.

Certain partners assist in or perform marketing activities on our behalf and promote our products and services to their customers. As compensation for providing these services, we often pay royalties, bounties or other special bonuses to these partners. Depending upon the nature of the payments, they are recorded as a reduction of revenue, marketing expenses or other operating expenses. We have certain credit card partnership arrangements in which our partner agrees to share a portion of the credit losses associated with the partnership.

If a partnership agreement provides for profit, revenue or loss sharing payments, we must determine whether to report those payments on a gross or net basis in our consolidated financial statements. We evaluate the contractual provisions of each transaction and applicable accounting guidance to determine the manner in which to report the impact of sharing arrangements in our consolidated financial statements. Our consolidated net income is the same regardless of whether revenue and loss sharing arrangements are reported on a gross or net basis.

When presented on a net basis, the loss sharing amounts due from partners are recorded as a reduction to our provision for credit losses in our consolidated statements of income and reduce the charge-off amounts that we report. The allowance for loan and lease losses attributable to these portfolios is also reduced by the expected reimbursements from these partners for loss sharing amounts. See "Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments" for additional information related to our loss sharing arrangements.

Collaborative Arrangements

A collaborative arrangement is a contractual arrangement that involves a joint operating activity between two or more parties that are active participants in the activity. These parties are exposed to significant risks and rewards based upon the economic success of the joint operating activity. We assess each of our partnership agreements with profit, revenue or loss sharing payments to determine if a collaborative arrangement exists and, if so, how revenue generated from third parties, costs incurred and transactions between participants in the collaborative arrangement should be accounted for and reported on our consolidated financial statements. We currently have one partnership agreement that meets the definition of a collaborative agreement.

We share a fixed percentage of revenues, consisting of finance charges and late fees, with the partner, and the partner is required to reimburse us for a fixed percentage of credit losses incurred. Revenues and losses related to the partner's credit card program and partnership agreement are reported on a net basis in our consolidated financial statements. Revenue sharing amounts attributable to the partner are recorded as an offset against total net revenue in our consolidated statements of income. Interest income was reduced by $1.2 billion in both 2017 and 2016, and $1.1 billion in 2015, for amounts earned by the partner, as part of the revenue sharing agreement. The impact of all of our loss sharing arrangements that are presented on a net basis is included in "Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments."

Stock-Based Compensation

We reserve common shares for issuance to employees, directors and third-party service providers, in various forms, including stock options, stock appreciation rights, restricted stock awards and units and performance share awards and units. In addition, we also issue cash equity units and cash-settled restricted stock units which are not counted against the common shares reserved for issuance or available for issuance because they are settled in cash. For awards settled in shares, we generally recognize compensation expense on a straight-line basis over the award's requisite service

period based on the fair value of the award at grant date. If an award settled in shares contains a performance condition with graded vesting, we recognize compensation expense using the accelerated attribution method. Equity units and restricted stock units that are cash-settled are accounted for as liability

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awards which results in quarterly expense fluctuations based on changes in our stock price through the date that the awards are settled. Awards that continue to vest after retirement are expensed over the shorter of the time period between the grant date and the final vesting period or between the grant date and when the participant becomes retirement eligible; awards to participants who are retirement eligible at the grant date are subject to immediate expense recognition. Stock-based compensation expense is included in salaries and associate benefits in the consolidated statements of income.

Stock-based compensation expense for equity classified stock options is based on the grant date fair value, which is estimated using a Black-Scholes option pricing model. Significant judgment is required when determining the inputs into the fair value model. For awards other than stock options, the fair value of stock-based compensation used in determining compensation expense will generally equal the fair market value of our common stock on the date of grant. Certain share-settled awards have discretionary vesting conditions which result in the remeasurement of these awards at fair value each reporting period and the potential for compensation expense to fluctuate with changes in our stock price.

Marketing Expenses

We expense marketing costs as incurred. Television advertising costs are expensed during the period in which the advertisements are aired.

Income Taxes

We recognize the current and deferred tax consequences of all transactions that have been recognized in the financial statements using the provisions of the enacted tax laws. Current income tax expense represents our estimated taxes to be paid or refunded for the current period and includes income tax expense related to our uncertain tax positions, as well as tax-related interest and penalties. Deferred tax assets and liabilities are determined based on differences between the financial reporting and tax basis of assets and liabilities and are measured using the enacted tax rates and laws that will be in effect when the differences are expected to reverse. We record valuation allowances to reduce deferred tax assets to the amount that is more likely than not to be realized. We record the effect of remeasuring deferred tax assets and liabilities due to a change in tax rates or laws as a component of income tax expense related to continuing operations for the period in which the change is enacted. Income tax benefits are recognized when, based on their technical merits, they are more likely than not to be sustained upon examination. The amount recognized is the largest amount of benefit that is more likely than not to be realized upon settlement. See “Note 16—Income Taxes” for additional detail.

Earnings Per Share

Earnings per share is calculated and reported under the “two-class” method. The “two-class” method is an earnings allocation method under which earnings per share is calculated for each class of common stock and participating security considering both dividends declared or accumulated and participation rights in undistributed earnings as if all such earnings had been distributed during the period. We have unvested share-based payment awards which have a right to receive nonforfeitable dividends. These share-based payment awards are deemed to be participating securities. We calculate basic earnings per share by dividing net income, after deducting dividends on preferred stock and participating securities as well as undistributed earnings allocated to participating securities, by the average number of common shares outstanding during the period, net of any treasury shares. We calculate diluted earnings per share in a similar manner after consideration of the potential dilutive effect of common stock equivalents on the average number of common shares outstanding during the period. Common stock equivalents include warrants, stock options, restricted stock awards and units, and performance share awards and units. Common stock equivalents are calculated based upon the treasury stock method using an average market price of common shares sold during the period. Dilution is not considered when a net loss is reported. Common stock equivalents that have an antidilutive effect are excluded from the computation of diluted earnings per share.

Derivative Instruments and Hedging Activities

All derivative financial instruments, whether designated for hedge accounting or not, are reported at their fair value on our consolidated balance sheets as either assets or liabilities, with consideration of legally enforceable master netting arrangements that allow us to net settle positive and negative positions and offset cash collateral with the same counterparty. We report net derivatives in a gain position, or derivative assets, on our consolidated balance sheets as a component of other assets. We report net derivatives in a loss position, or derivative liabilities, on our consolidated balance sheets as a component of other liabilities.

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See "Note 10—Derivative Instruments and Hedging Activities" for additional detail on the accounting for derivative instruments, including those designated as qualifying for hedge accounting.

Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities
Level 3: Unobservable inputs

The accounting guidance for fair value requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance also provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes to fair value in the consolidated statements of income. We have not made any material fair value option elections as of and for the years ended December 31, 2017, 2016 and 2015. See "Note 17—Fair Value Measurement" for additional information.

Accounting for Acquisitions

We account for business combinations under the acquisition method of accounting. Under the acquisition method, tangible and intangible identifiable assets acquired, liabilities assumed and any noncontrolling interest in the acquiree are recorded at fair value as of the acquisition date, with limited exceptions. Transaction costs and costs to restructure the acquired company are expensed as incurred. Goodwill is recognized as the excess of the acquisition price over the estimated fair value of the net assets acquired. Likewise, if the fair value of the net assets acquired is greater than the acquisition price, a bargain purchase gain is recognized and recorded in non-interest income.

If the acquired set of activities and assets do not meet the accounting definition of a business, the transaction is accounted for as an asset acquisition. In an asset acquisition, the assets acquired are recorded at the purchase price plus any transaction costs incurred and no goodwill is recognized.

Newly Adopted Accounting Standards

Restricted Cash

In November 2016, the Financial Accounting Standards Board ("FASB") issued revised guidance that requires restricted cash and restricted cash equivalents to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. We elected to early adopt the guidance retrospectively effective as of January 1, 2017. Upon adoption, changes in restricted cash, which had previously been presented as financing activities, are now included within beginning and ending Cash, cash equivalents and restricted cash for securitization investors balances in our consolidated statements of cash flows.

The Cash, cash equivalents and restricted cash for securitization investors balances presented in the consolidated statements of cash flows are comprised of the amounts captioned on the consolidated balance sheets as Total cash and cash equivalents and Restricted cash for securitization investors.

Improvements to Employee Share-Based Accounting

In March 2016, the FASB issued revised guidance for accounting for employee share-based payments. The guidance requires that all excess tax benefits and tax deficiencies that pertain to employee stock-based incentive payments be recognized as income tax expense or benefit in the consolidated statements of income, rather than within additional paid-in capital; and that excess tax benefits be classified as an operating activity rather than financing activity in the

consolidated statements of cash flows. The guidance also permits an accounting policy election to either estimate the number of awards that are expected to vest or account

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for forfeitures when they occur. We adopted the guidance effective in the first quarter of 2017 on a prospective basis related to recognition of excess tax benefits and deficiencies in the consolidated statements of income and presentation of excess tax benefits in the consolidated statements of cash flows. In addition, we made an accounting policy election to account for forfeitures of awards as they occur and applied a modified retrospective transition method. Our adoption of this guidance did not have a material impact to our consolidated financial statements.

Recently Issued but Not Yet Adopted Accounting Standards

Reclassification of Certain Tax Effects Stranded in Accumulated Other Comprehensive Income

In February 2018, the FASB issued revised guidance on the accounting for certain tax effects stranded in AOCI. U.S. GAAP requires the effects of changes in tax rates and laws on deferred tax balances to be recorded as a component of income tax expense from continuing operations in the period of enactment. For deferred tax assets and liabilities related to items in AOCI, this results in the tax effects of such changes being stranded in AOCI. The revised guidance provides an optional reclassification from AOCI to retained earnings for such stranded tax effects resulting from the reduction in the corporate income tax rate enacted by the Tax Act. The reclassification may also include such stranded tax effects resulting from other income tax effects of the Tax Act, such as the effect of the federal benefit of deducting state income taxes. Entities are provided the option to apply the guidance retrospectively or in the period of adoption. The guidance is effective for us on January 1, 2019, with early adoption permitted. We currently plan to adopt the standard in the first quarter of 2018, using the option to make the adjustment in the period of adoption, and anticipate such adoption will result in a decrease to our AOCI and an increase to our retained earnings of approximately $170 million.

Targeted Improvements to Accounting for Hedging Activities

In August 2017, the FASB issued amended hedge accounting guidance to better align hedge accounting with risk management activities. It reduces the complexity involved in applying hedging accounting through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of the impacts of those hedging relationships. Under the amended guidance, the recognition of hedging instruments has been amended by eliminating the concept of separately measuring and reporting hedge ineffectiveness. The presentation of hedging instruments has been amended as well by requiring the entire change in the fair value of the hedging instrument to be recorded in the same income statement line item that is used to present the earnings effect of the hedged item. With respect to fair value hedges of interest rate risk, the guidance will allow changes in the fair value of the hedged item to be measured using a portion of the term of the hedged item and the benchmark interest rate component of the total coupon determined at hedge inception. In addition, for a closed pool of pre-payable financial assets, entities will be able to hedge an amount that is not expected to be affected by prepayments, defaults and other events under the "last-of-layer" method. The guidance will permit a one-time reclassification of debt securities eligible to be hedged under the "last-of-layer" method from held to maturity to available for sale upon adoption.

We early adopted this guidance in the first quarter of 2018 using the prescribed modified retrospective transition method. As a result we elected to transfer held to maturity securities eligible to be hedged under the "last-of-layer" method to the available for sale category. We made this one-time election to optimize the investment portfolio management for capital and risk management considerations. We will manage the transferred securities collectively with the securities in the available for sale portfolio. We transferred held to maturity securities with a carrying amount of $9.0 billion, which resulted in an increase to accumulated other comprehensive income of $107 million. The impacts of the transfer, as well as the disclosures required under the new guidance, will be reflected in the first quarter of 2018 Quarterly Report on Form 10-Q.

Premium Amortization on Purchased Callable Debt Securities

In March 2017, the FASB issued revised guidance to shorten the amortization period to the earliest call date for certain purchased callable debt securities held at a premium. There is no change for accounting for securities held at a discount. Under the existing guidance, the premium is generally amortized as an adjustment to interest income over the contractual life of the debt security. We do not expect the adoption of this guidance to have a material impact on

our consolidated financial statements. This guidance is effective for us on January 1, 2019, with early adoption permitted, using the modified retrospective method of adoption. We plan to adopt the standard on its effective date.

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Simplifying the Test for Goodwill Impairment

In January 2017, the FASB issued revised guidance which is intended to reduce the cost and complexity of testing goodwill for impairment by eliminating the second step from the current goodwill impairment test. Under the existing guidance, the first step compares a reporting unit's carrying value to its fair value. If the carrying value exceeds fair value, an entity performs the second step, which assigns the reporting unit's fair value to its assets and liabilities, including unrecognized assets and liabilities, in the same manner as required in purchase accounting. Under the new guidance, any impairment of a reporting unit's goodwill is determined based on the amount by which the reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to the reporting unit. This guidance is effective for us on January 1, 2020, with early adoption permitted, using the prospective method of adoption. We plan to adopt the standard on its effective date.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance requires an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected rather than incurred losses, with an anticipated result of more timely loss recognition. The CECL model is applicable to financial assets measured at amortized cost, net investments in leases that are not accounted for at fair value through net income and certain off-balance sheet arrangements. The CECL model will replace our current accounting for purchased credit-impaired ("PCI") and impaired loans. The guidance also amends the available for sale ("AFS") debt securities other-than-temporary impairment ("OTTI") model. Credit losses (and subsequent recoveries) on AFS debt securities will be recorded through an allowance approach, rather than the current U.S. GAAP practice of permanent write-downs for credit losses and accreting positive changes through interest income over time.

This guidance is effective for us on January 1, 2020, with early adoption permitted no earlier than January 1, 2019, using the modified retrospective method of adoption. We plan to adopt the standard on its effective date. We have established a company-wide, cross-functional governance structure for our implementation of this standard. We are in the process of determining key accounting interpretations, data requirements and necessary changes to our credit loss estimation methods, processes and systems. We continue to assess the potential impact on our consolidated financial statements and related disclosures. Due to the significant differences in the revised guidance from existing U.S. GAAP, the implementation of this guidance may result in increases to our reserves for credit losses on financial instruments.

Leases

In February 2016, the FASB issued revised guidance for leases. The guidance requires lessees to recognize right of use assets and lease liabilities on their consolidated balance sheets and disclose key information about all their leasing arrangements, with certain practical expedients. This guidance is effective for us on January 1, 2019, with early adoption permitted, using the modified retrospective method of adoption. We plan to adopt the standard on the effective date. We are currently in the process of reviewing lease contracts, implementing a new lease accounting and administration software solution, establishing new processes and internal controls and evaluating the impact of various accounting policy elections. Upon adoption, we expect to record a right of use asset and a corresponding lease liability for our operating leases where we are the lessee. The potential impact on our consolidated financial statements is largely based on the present value of future minimum lease payments, the amount of which will depend upon the population of leases in effect at the date of adoption. Future minimum lease payments totaled $2.7 billion as of December 31, 2017, as disclosed in "Note 8—Premises, Equipment and Lease Commitments." We do not expect material changes to the recognition of operating lease expense in our consolidated statements of income.

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Recognition and Measurement of Financial Assets and Financial Liabilities
In January 2016, the FASB issued revised guidance for the recognition, measurement, presentation and disclosure of financial instruments. The main provisions of the guidance include, (i) the measurement of most equity investments at fair value with changes in fair value recorded through net income, except those accounted for under the equity method of accounting, or those that do not have a readily determinable fair value (for which a practical expedient can be elected); (ii) the required use of the exit price notion when valuing financial instruments for disclosure purposes; (iii) the separate presentation in other comprehensive income of the instrument-specific credit risk portion of the total change in the fair value of a liability under the fair value option; (iv) the determination of the need for a valuation allowance on a deferred tax asset related to AFS securities must be made in combination with other deferred tax assets. The guidance eliminates the current classifications of equity securities as trading or AFS and will require separate presentation of financial assets and liabilities by category and form of the financial assets on the face of the consolidated balance sheets or within the accompanying notes. The guidance also eliminates the requirement to disclose the methods and significant assumptions used to estimate fair value of financial instruments measured at amortized cost on the balance sheet. We adopted this guidance in the first quarter of 2018. Our adoption did not have a material impact on our consolidated financial statements.
Revenue from Contracts with Customers
In May 2014, the FASB issued revised guidance for the recognition, measurement and disclosure of revenue from contracts with customers. The original guidance was amended through subsequent accounting standard updates that resulted in technical corrections, improvements and a one-year deferral of the effective date to January 1, 2018. The guidance, as amended, is applicable to all entities and replaced significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Entities were given an option to apply either a full or modified retrospective method of adoption. Most revenue associated with financial instruments, including interest income, loan origination fees and credit card fees, is outside the scope of the guidance. Gains and losses on investment securities, derivatives and sales of financial instruments are similarly excluded from the scope. We determined interchange fees earned on credit and debit card transactions, net of any related customer rewards, are in the scope of the amended guidance. We assessed the impact of the new guidance by evaluating our contracts, identifying our performance obligations, determining when the performance obligations were satisfied to allow us to recognize revenue and determining the amount of revenue to recognize. As a result of this analysis, we determined our recognition, measurement and presentation of interchange fees net of customer rewards costs will not change. We adopted this guidance in the first quarter of 2018, using the modified retrospective method of adoption. Our adoption did not have a material impact on our consolidated financial statements.

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NOTE 2—BUSINESS DEVELOPMENTS AND DISCONTINUED OPERATIONS

Business Developments

Cabela's Acquisition

On September 25, 2017, we completed the acquisition from Synovus Bank of credit card assets and related liabilities of World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated ("Cabela's acquisition"). The Cabela's acquisition was accounted for as a business combination under the acquisition method of accounting. During the fourth quarter of 2017, we finalized purchase accounting. Including post-closing purchase price adjustments, total cash consideration for the acquisition was $3.2 billion net of cash and restricted cash acquired. We recognized approximately $5.9 billion in assets, primarily consisting of $5.7 billion in credit card receivables. We also assumed $2.6 billion of liabilities, of which $2.5 billion were securitized debt obligations. Results of the Cabela's acquisition are included within our Credit Card segment.

Restructuring Activities

We periodically initiate restructuring activities to support business strategies and enhance our overall operational efficiency. These restructuring activities have primarily consisted of exiting certain business locations and activities as well as the realignment of resources supporting various businesses, including the decision in the fourth quarter of 2017 to cease new originations of home loan lending products within our Consumer Banking business. The charges incurred as a result of these restructuring activities have primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, which are included in salaries and associate benefits within non-interest expense in our consolidated statements of income, as well as impairment of certain assets related to business locations and activities being exited, which are generally included in occupancy and equipment within non-interest expense.
During 2017 and 2015, we recognized restructuring charges of $184 million and $120 million, respectively, which are reflected in the Other category. There were no significant restructuring charges incurred during 2016. As of December 31, 2017, we had a liability of $124 million associated with these restructuring activities, which is recorded in other liabilities on our consolidated balance sheets.

Discontinued Operations

Our discontinued operations consist of the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint") and the manufactured housing operations of GreenPoint Credit, LLC, a subsidiary of GreenPoint, both of which were acquired as part of the North Fork Bancorporation, Inc. ("North Fork") acquisition in December 2006. Although the manufactured housing operations were sold to a third party in 2004 prior to our acquisition of North Fork, we acquired certain retained interests and obligations related to those operations as part of the acquisition. Separately, in the third quarter of 2007 we closed the mortgage origination operations of the wholesale mortgage banking unit. The results of both the wholesale banking unit and the manufactured housing operations have been accounted for as discontinued operations and are reported as income or loss from discontinued operations, net of tax, on the consolidated statements of income.
The following table summarizes the results from discontinued operations for the years ended December 31, 2017, 2016 and 2015:

Table 2.1: Results of Discontinued Operations

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Income (loss) from discontinued operations before income taxes	$(215)	$(30)	$ 60
Income tax provision (benefit)	(80)	(11)	22
Income (loss) from discontinued operations, net of tax	$(135)	$(19)	$ 38

The loss from discontinued operations for the year ended December 31, 2017 was primarily driven by a mortgage representation and warranty settlement in the fourth quarter of 2017, which resulted in a pre-tax charge of $169 million representing amounts above previously recognized reserves.

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As of December 31, 2017, we had no significant continuing involvement in the operations of our wholesale mortgage banking unit.
We previously had contingent obligations to exercise mandatory clean-up calls associated with certain securitization transactions undertaken by the discontinued GreenPoint Credit, LLC manufactured housing operations in the event the third-party servicer could not fulfill its obligation to exercise these clean-up calls. On October 10, 2017, we entered into an agreement with the third-party servicer under which we assumed the mandatory obligation to exercise the remaining clean-up calls as they become due on certain securitization transactions. See “Note 6—Variable Interest Entities and Securitizations” and “Note 19—Commitments, Contingencies, Guarantees and Others” for information associated with GreenPoint Credit, LLC manufactured housing operations and our mortgage representation and warranty exposure.

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NOTE 3—INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"); Agency commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other securities. Agency securities include Government National Mortgage Association ("Ginnie Mae") guaranteed securities, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") issued securities. The carrying value of our investments in U.S. Treasury and Agency securities represented 95% and 91% of our total investment securities as of December 31, 2017 and 2016, respectively.

The table below presents the overview of our investment securities portfolio as of December 31, 2017 and 2016.

Table 3.1: Overview of Investment Securities Portfolio

(Dollars in millions)	December 31, 2017	December 31, 2016
Securities available for sale, at fair value	$ 37,655	$ 40,737
Securities held to maturity, at carrying value	28,984	25,712
Total investment securities	$ 66,639	$ 66,449

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of December 31, 2017 and 2016.

Table 3.2: Investment Securities Available for Sale

	December 31, 2017			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$5,168	$ 11	$ (8)	$5,171
RMBS:				
Agency	26,013	67	(402)	25,678
Non-agency	1,722	393	(1)	2,114
Total RMBS	27,735	460	(403)	27,792
Agency CMBS	3,209	10	(44)	3,175
Other ABS	513	0	(1)	512
Other securities[2]	1,003	4	(2)	1,005
Total investment securities available for sale	$37,628	$ 485	$ (458)	$37,655

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	December 31, 2016			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$5,103	$ 11	$ (49)	$5,065
RMBS:				
Agency	26,830	109	(412)	26,527
Non-agency	2,349	382	(9)	2,722
Total RMBS	29,179	491	(421)	29,249
CMBS:				
Agency	3,335	14	(45)	3,304
Non-agency	1,676	21	(13)	1,684
Total CMBS	5,011	35	(58)	4,988
Other ABS	714	1	(1)	714
Other securities[2]	726	1	(6)	721
Total investment securities available for sale	$40,733	$ 539	$ (535)	$40,737

(1) Includes non-credit-related OTTI that is recorded in AOCI of $1 million and $9 million as of December 31, 2017 and 2016, respectively. Substantially all of this amount is related to non-agency RMBS.
(2) Includes supranational bonds, foreign government bonds, mutual funds and equity investments.

The table below presents the amortized cost, carrying value, gross unrealized gains and losses, and fair value of securities held to maturity as of December 31, 2017 and 2016.

Table 3.3: Investment Securities Held to Maturity

	December 31, 2017					
(Dollars in millions)	Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$200	$ 0	$200	$ 0	$ 0	$200
Agency RMBS	25,741	(761)	24,980	565	(150)	25,395
Agency CMBS	3,882	(78)	3,804	70	(32)	3,842
Total investment securities held to maturity	$29,823	$ (839)	$28,984	$ 635	$ (182)	$29,437

	December 31, 2016					
(Dollars in millions)	Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$199	$ 0	$199	$ 0	$ 0	$199
Agency RMBS	23,022	(897)	22,125	606	(158)	22,573
Agency CMBS	3,480	(92)	3,388	77	(41)	3,424
Total investment securities held to maturity	$26,701	$ (989)	$25,712	$ 683	$ (199)	$26,196

(1) Certain investment securities were transferred from the available for sale category to the held to maturity category in 2013. This amount represents the unrealized holding gain or loss at the date of transfer, net of any subsequent accretion. Any bonds purchased into the securities held to maturity portfolio rather than transferred, will not have

unrealized losses recognized in AOCI.

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Investment Securities in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our securities available for sale in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of December 31, 2017 and 2016.

Table 3.4: Securities in a Gross Unrealized Loss Position

	December 31, 2017					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	$2,031	$ (8)	$0	$ 0	$2,031	$ (8)
RMBS:						
Agency	8,192	(67)	13,175	(335)	21,367	(402)
Non-agency	10	0	10	(1)	20	(1)
Total RMBS	8,202	(67)	13,185	(336)	21,387	(403)
Agency CMBS	880	(8)	1,236	(36)	2,116	(44)
Other ABS	130	0	95	(1)	225	(1)
Other securities	371	(2)	0	0	371	(2)
Total investment securities available for sale in a gross unrealized loss position	$11,614	$ (85)	$14,516	$ (373)	$26,130	$ (458)

	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	$1,060	$ (49)	$0	$ 0	$1,060	$ (49)
RMBS:						
Agency	16,899	(329)	4,865	(83)	21,764	(412)
Non-agency	128	(2)	145	(7)	273	(9)
Total RMBS	17,027	(331)	5,010	(90)	22,037	(421)
CMBS:						
Agency	1,624	(21)	745	(24)	2,369	(45)
Non-agency	826	(11)	129	(2)	955	(13)
Total CMBS	2,450	(32)	874	(26)	3,324	(58)
Other ABS	187	(1)	21	0	208	(1)
Other securities	417	(6)	0	0	417	(6)
Total investment securities available for sale in a gross unrealized loss position	$21,141	$ (419)	$5,905	$ (116)	$27,046	$ (535)

As of December 31, 2017, the amortized cost of approximately 920 securities available for sale exceeded their fair value by $458 million, of which $373 million related to securities that had been in a loss position for 12 months or longer. As of December 31, 2017, the carrying value of approximately 250 securities classified as held to maturity exceeded their fair value by $182 million.

The unrealized losses related to investment securities for which we have not recognized credit impairment were primarily attributable to changes in market interest rates. As discussed in more detail below, we conduct periodic reviews of all investment securities with unrealized losses to assess whether impairment is other-than-temporary.

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Maturities and Yields of Investment Securities
The table below summarizes, by major security type, the contractual maturities and weighted-average yields of our investment securities as of December 31, 2017. Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented below. The weighted-average yield below represents the effective yield for the investment securities and is calculated based on the amortized cost of each security.
Table 3.5: Contractual Maturities and Weighted-Average Yields of Securities

	December 31, 2017				
(Dollars in millions)	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total
Fair value of securities available for sale:					
U.S. Treasury securities	$200	$1,238	$3,733	$0	$5,171
RMBS[(1)]:					
Agency	4	45	507	25,122	25,678
Non-agency	0	0	0	2,114	2,114
Total RMBS	4	45	507	27,236	27,792
Agency CMBS[(1)]	19	592	1,123	1,441	3,175
Other ABS[(1)]	172	310	0	30	512
Other securities	229	332	348	96	1,005
Total securities available for sale	$624	$2,517	$5,711	$28,803	$37,655
Amortized cost of securities available for sale	$624	$2,515	$5,706	$28,783	$37,628
Weighted-average yield for securities available for sale	1.13 %	1.88 %	2.05 %	2.65 %	2.49 %
Carrying value of securities held to maturity:					
U.S. Treasury securities	$200	$0	$0	$0	$200
Agency RMBS	0	0	120	24,860	24,980
Agency CMBS	0	987	239	2,578	3,804
Total securities held to maturity	$200	$987	$359	$27,438	$28,984
Fair value of securities held to maturity	$200	$1,031	$366	$27,840	$29,437
Weighted-average yield for securities held to maturity	1.11 %	2.37 %	2.87 %	2.77 %	2.75 %

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(1) As of December 31, 2017, weighted-average expected maturities of RMBS, CMBS and other ABS are 5.0 years, 4.3 years and 1.0 years, respectively.

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

If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. As of December 31, 2017, for any securities with unrealized losses recorded in AOCI, we do not intend to sell, nor believe that we will be required to sell, these securities prior to recovery of their amortized cost.

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For those securities that we do not intend to sell nor expect to be required to sell, an analysis is performed to determine if any of the impairment is due to credit-related factors or whether it is due to other factors, such as interest rates. Credit-related impairment is recognized in earnings, with the remaining unrealized non-credit-related impairment recorded in AOCI. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected cash flows, discounted based on the effective yield.

Realized Gains and Losses on Securities and OTTI Recognized in Earnings

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale, and the OTTI losses recognized in earnings for the years ended December 31, 2017, 2016 and 2015. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are classified as held to maturity.

Table 3.6: Realized Gains and Losses and OTTI Recognized in Earnings

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Realized gains (losses):			
Gross realized gains	$144	$12	$23
Gross realized losses	(74)	(6)	(25)
Net realized gains (losses)	70	6	(2)
OTTI recognized in earnings:			
Credit-related OTTI	(2)	(11)	(25)
Intent-to-sell OTTI	(3)	(6)	(5)
Total OTTI recognized in earnings	(5)	(17)	(30)
Net securities gains (losses)	$65	$(11)	$(32)
Total proceeds from sales	$8,181	$4,146	$4,379

The cumulative credit loss component of the OTTI losses that have been recognized in our consolidated statements of income related to the securities that we do not intend to sell was $147 million, $207 million and $199 million for the years ended December 31, 2017, 2016 and 2015, respectively.

Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including FHLB. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $2.8 billion and $1.9 billion as of December 31, 2017 and 2016, respectively. We also pledged securities held to maturity with a carrying value of $5.7 billion and $8.1 billion as of December 31, 2017 and 2016, respectively. We accepted pledges of securities with a fair value of $1 million and $16 million as of December 31, 2017 and 2016, respectively, primarily related to our derivative transactions.

Purchased Credit-Impaired Debt Securities

The table below presents the outstanding balance and carrying value of the purchased credit-impaired debt securities as of December 31, 2017 and 2016.

Table 3.7: Outstanding Balance and Carrying Value of Purchased Credit-Impaired Debt Securities

(Dollars in millions)	December 31, 2017	December 31, 2016
Outstanding balance	$ 2,131	$ 2,899
Carrying value	1,843	2,277

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Changes in Accretable Yield of Purchased Credit-Impaired Debt Securities

The following table presents changes in the accretable yield related to the purchased credit-impaired debt securities for the years ended December 31, 2017, 2016 and 2015.

Table 3.8: Changes in the Accretable Yield of Purchased Credit-Impaired Debt Securities

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Accretable yield, beginning of period	$1,173	$1,237	$1,250
Accretion recognized in earnings	(182)	(206)	(240)
Reduction due to payoffs, disposals, transfers and other	(157)	(2)	(1)
Net reclassifications (to) from nonaccretable difference	(8)	144	228
Accretable yield, end of period	$826	$1,173	$1,237

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NOTE 4—LOANS

Loan Portfolio Composition

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts and loans held for sale, and is divided into three portfolio segments: credit card, consumer banking and commercial banking. Credit card loans consist of domestic and international credit card loans. Consumer banking loans consist of auto, home and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial, and small-ticket commercial real estate loans.

Our portfolio of loans held for investment also includes certain consumer and commercial loans acquired through business combinations that were recorded at fair value at acquisition and subsequently accounted for based on cash flows expected to be collected, which are referred to as PCI loans. See “Note 1—Summary of Significant Accounting Policies” for additional information on the accounting guidance for these loans. The credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value.

Credit Quality

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

The table below presents the composition and an aging analysis of our loans held for investment portfolio as of December 31, 2017 and 2016. The delinquency aging includes all past due loans, both performing and nonperforming.

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Table 4.1: Loan Portfolio Composition and Aging Analysis

	December 31, 2017						
(Dollars in millions)	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	$101,072	$1,211	$915	$2,093	$4,219	$2	$105,293
International card businesses	9,110	144	81	134	359	0	9,469
Total credit card	110,182	1,355	996	2,227	4,578	2	114,762
Consumer Banking:							
Auto	50,151	2,483	1,060	297	3,840	0	53,991
Home loan	7,235	37	16	70	123	10,275	17,633
Retail banking	3,389	24	5	18	47	18	3,454
Total consumer banking	60,775	2,544	1,081	385	4,010	10,293	75,078
Commercial Banking:							
Commercial and multifamily real estate	26,018	41	17	49	107	25	26,150
Commercial and industrial	37,412	1	70	87	158	455	38,025
Total commercial lending	63,430	42	87	136	265	480	64,175
Small-ticket commercial real estate	393	2	1	4	7	0	400
Total commercial banking	63,823	44	88	140	272	480	64,575
Other loans	54	2	1	1	4	0	58
Total loans[1]	$234,834	$3,945	$2,166	$2,753	$8,864	$10,775	$254,473
% of Total loans	92.29 %	1.55 %	0.85 %	1.08 %	3.48 %	4.23 %	100.00 %

	December 31, 2016						
(Dollars in millions)	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	$93,279	$1,153	$846	$1,840	$3,839	$2	$97,120
International card businesses	8,115	124	72	121	317	0	8,432
Total credit card	101,394	1,277	918	1,961	4,156	2	105,552
Consumer Banking:							
Auto	44,762	2,041	890	223	3,154	0	47,916
Home loan	6,951	44	20	141	205	14,428	21,584
Retail banking	3,477	22	7	20	49	28	3,554
Total consumer banking	55,190	2,107	917	384	3,408	14,456	73,054
Commercial Banking:							
Commercial and multifamily real estate	26,536	45	0	0	45	28	26,609
Commercial and industrial	38,831	27	84	297	408	585	39,824
Total commercial lending	65,367	72	84	297	453	613	66,433
Small-ticket commercial real estate	473	7	1	2	10	0	483
Total commercial banking	65,840	79	85	299	463	613	66,916
Other loans	56	3	0	5	8	0	64
Total loans[1]	$222,480	$3,466	$1,920	$2,649	$8,035	$15,071	$245,586

% of Total loans	90.59 %	1.41 %	0.78 %	1.08 %	3.27 %	6.14 %	100.00 %

(1) Loans, other than PCI loans, include unamortized premiums and discounts, and unamortized deferred fees and costs totaling $773 million and $558 million as of December 31, 2017 and 2016, respectively.

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We pledged loan collateral of $27.3 billion and $29.3 billion to secure the majority of our FHLB borrowing capacity of $21.0 billion and $24.9 billion as of December 31, 2017 and 2016, respectively.
The following table presents the outstanding balance of loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming as of December 31, 2017 and 2016. Nonperforming loans generally include loans that have been placed on nonaccrual status. PCI loans are excluded from the table below. See "Note 1—Summary of Significant Accounting Policies" for additional information on our policies for nonperforming loans and accounting for PCI loans.
Table 4.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans

	December 31, 2017		December 31, 2016	
(Dollars in millions)	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Credit Card:				
Domestic credit card	$2,093	N/A	$1,840	N/A
International card businesses	128	$ 24	96	$ 42
Total credit card	2,221	24	1,936	42
Consumer Banking:				
Auto	0	376	0	223
Home loan	0	176	0	273
Retail banking	0	35	0	31
Total consumer banking	0	587	0	527
Commercial Banking:				
Commercial and multifamily real estate	12	38	0	30
Commercial and industrial	0	239	0	988
Total commercial lending	12	277	0	1,018
Small-ticket commercial real estate	0	7	0	4
Total commercial banking	12	284	0	1,022
Other loans	0	4	0	8
Total	$2,233	$ 899	$1,936	$ 1,599
% of Total loans	0.88 %	0.35 %	0.79 %	0.65 %

Credit Card
Our credit card loan portfolio is highly diversified across millions of accounts and numerous geographies without significant individual exposure. We therefore generally manage credit risk based on portfolios with common risk characteristics. The risk in our credit card loan portfolio correlates to broad economic trends, such as unemployment rates and home values, as well as consumers' financial condition, all of which can have a material effect on credit performance. The primary indicators we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of loan migration between delinquency categories over time.
The table below displays the geographic profile of our credit card loan portfolio as of December 31, 2017 and 2016.
Table 4.3: Credit Card Risk Profile by Geographic Region

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Domestic credit card:				
California	$11,475	10.0 %	$11,068	10.5 %
Texas	7,847	6.8	7,227	6.8

New York	7,389	6.4	7,090	6.7
Florida	6,790	5.9	6,540	6.2
Illinois	4,734	4.1	4,492	4.3
Pennsylvania	4,550	4.0	4,048	3.8
Ohio	3,929	3.4	3,654	3.5
New Jersey	3,621	3.2	3,488	3.3
Michigan	3,523	3.1	3,164	3.0
Other	51,435	44.8	46,349	43.9
Total domestic credit card	105,293	91.7	97,120	92.0
International card businesses:				
Canada	6,286	5.5	5,594	5.3
United Kingdom	3,183	2.8	2,838	2.7
Total international card businesses	9,469	8.3	8,432	8.0
Total credit card	$114,762	100.0%	$105,552	100.0%

The table below presents net charge-offs for the years ended December 31, 2017 and 2016.

Table 4.4: Credit Card Net Charge-Offs

	Year Ended December 31,			
	2017		2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:[1]				
Domestic credit card[2]	$4,739	4.99%	$3,681	4.16%
International card businesses	315	3.69	272	3.33
Total credit card[2]	$5,054	4.88	$3,953	4.09

(1) Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine to be uncollectible, net of recovered amounts. Net charge-off rate is calculated by dividing net charge-offs by average loans held for investment for the period for each loan category. Net charge-offs and the net charge-off rate are impacted periodically by fluctuations in recoveries, including loan sales.

(2) Excluding the impact of the Cabela's acquisition, the domestic credit card and total credit card net charge-off rates for the year ended December 31, 2017 would have been 5.07% and 4.95%, respectively.

Consumer Banking

Our consumer banking loan portfolio consists of auto, home and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio correlates to broad economic trends, such as unemployment rates, gross domestic product ("GDP") and home values, as well as consumers' financial condition, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key indicators we assess in monitoring the credit quality and risk of our consumer banking loan portfolio.

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The table below displays the geographic profile of our consumer banking loan portfolio, including PCI loans, as of December 31, 2017 and 2016.

Table 4.5: Consumer Banking Risk Profile by Geographic Region

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	% of Total	Amount	% of Total
Auto:				
Texas	$7,040	9.4 %	$6,304	8.6 %
California	6,099	8.1	5,448	7.5
Florida	4,486	6.0	3,985	5.5
Georgia	2,726	3.6	2,506	3.4
Ohio	2,318	3.1	2,017	2.8
Louisiana	2,236	3.0	2,159	3.0
Illinois	2,181	2.9	2,065	2.8
Other	26,905	35.8	23,432	32.0
Total auto	53,991	71.9	47,916	65.6
Home loan:				
California	3,734	5.0	4,993	6.8
New York	1,941	2.6	2,036	2.8
Maryland	1,226	1.6	1,409	1.9
Virginia	1,034	1.4	1,204	1.7
Illinois	976	1.3	1,218	1.7
New Jersey	931	1.2	1,112	1.5
Texas	882	1.2	823	1.1
Other	6,909	9.2	8,789	12.0
Total home loan	17,633	23.5	21,584	29.5
Retail banking:				
New York	955	1.3	941	1.3
Louisiana	953	1.3	1,010	1.4
Texas	717	0.9	756	1.0
New Jersey	221	0.3	238	0.3
Maryland	187	0.2	190	0.3
Virginia	154	0.2	156	0.2
Other	267	0.4	263	0.4
Total retail banking	3,454	4.6	3,554	4.9
Total consumer banking	$75,078	100.0%	$73,054	100.0%

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The table below presents net charge-offs in our consumer banking loan portfolio for the years ended December 31, 2017 and 2016, as well as nonperforming loans as of December 31, 2017 and 2016.

Table 4.6: Consumer Banking Net Charge-Offs and Nonperforming Loans

	Year Ended December 31,			
	2017		2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:				
Auto	$957	1.86 %	$752	1.69 %
Home loan[2]	15	0.08	14	0.06
Retail banking	66	1.92	54	1.53
Total consumer banking[2]	$1,038	1.39	$820	1.15

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Amount	Rate[3]	Amount	Rate[3]
Nonperforming loans:				
Auto	$376	0.70 %	$223	0.47 %
Home loan[4]	176	1.00	273	1.26
Retail banking	35	1.00	31	0.86
Total consumer banking[4]	$587	0.78	$527	0.72

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(1) Net charge-off rate is calculated by dividing net charge-offs by average loans held for investment for the period for each loan category.

(2) Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.07% and 1.65%, respectively, for the year ended December 31, 2017 compared to 0.20% and 1.49%, respectively, for the year ended December 31, 2016.

(3) Nonperforming loan rates are calculated based on nonperforming loans for each category divided by period-end total loans held for investment for each respective category.

(4) Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 2.39% and 0.91%, respectively, as of December 31, 2017 compared to 3.81% and 0.90%, respectively, as of December 31, 2016.

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we monitor a variety of mortgage loan characteristics that may affect the default experience on this loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices after the peak in 2006 and subsequent rise in unemployment. These loan concentrations include loans originated between 2006 and 2008 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards.

The following table presents the distribution of our home loan portfolio as of December 31, 2017 and 2016 based on selected key risk characteristics.

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

	December 31, 2017					
	Loans		PCI Loans[1]		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Origination year:[2]						
< 2008	$1,586	9.0 %	$6,919	39.2%	$8,505	48.2 %
2009	62	0.4	769	4.4	831	4.8
2010	64	0.4	1,078	6.1	1,142	6.5
2011	113	0.6	1,181	6.7	1,294	7.3
2012	673	3.8	178	1.0	851	4.8
2013	381	2.2	46	0.3	427	2.5
2014	467	2.6	25	0.1	492	2.7
2015	905	5.1	28	0.2	933	5.3
2016	1,604	9.1	23	0.1	1,627	9.2
2017	1,503	8.5	28	0.2	1,531	8.7
Total	$7,358	41.7%	$10,275	58.3%	$17,633	100.0%
Geographic concentration:						
California	$987	5.6 %	$2,747	15.6%	$3,734	21.2 %
New York	1,427	8.1	514	2.9	1,941	11.0
Maryland	608	3.4	618	3.5	1,226	6.9
Virginia	532	3.0	502	2.8	1,034	5.8
Illinois	163	0.9	813	4.6	976	5.5
New Jersey	389	2.2	542	3.1	931	5.3
Texas	811	4.6	71	0.4	882	5.0
Louisiana	826	4.7	17	0.1	843	4.8
Florida	186	1.1	582	3.3	768	4.4
Arizona	91	0.5	577	3.3	668	3.8
Other	1,338	7.6	3,292	18.7	4,630	26.3
Total	$7,358	41.7%	$10,275	58.3%	$17,633	100.0%
Lien type:						
1st lien	$6,364	36.1%	$10,054	57.0%	$16,418	93.1 %
2nd lien	994	5.6	221	1.3	1,215	6.9
Total	$7,358	41.7%	$10,275	58.3%	$17,633	100.0%
Interest rate type:						
Fixed rate	$3,722	21.1%	$1,505	8.5 %	$5,227	29.6 %
Adjustable rate	3,636	20.6	8,770	49.8	12,406	70.4
Total	$7,358	41.7%	$10,275	58.3%	$17,633	100.0%

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	December 31, 2016					
	Loans		PCI Loans[1]		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Origination year:[2]						
< 2008	$2,166	10.0%	$9,684	44.9%	$11,850	54.9 %
2009	80	0.4	1,088	5.0	1,168	5.4
2010	82	0.4	1,562	7.2	1,644	7.6
2011	139	0.6	1,683	7.8	1,822	8.4
2012	969	4.5	268	1.2	1,237	5.7
2013	465	2.2	59	0.2	524	2.4
2014	557	2.6	31	0.2	588	2.8
2015	1,024	4.7	30	0.2	1,054	4.9
2016	1,674	7.8	23	0.1	1,697	7.9
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%
Geographic concentration:						
California	$976	4.5 %	$4,017	18.6%	$4,993	23.1 %
New York	1,343	6.2	693	3.2	2,036	9.4
Maryland	585	2.7	824	3.9	1,409	6.6
Illinois	108	0.5	1,110	5.1	1,218	5.6
Virginia	490	2.3	714	3.3	1,204	5.6
New Jersey	379	1.8	733	3.4	1,112	5.2
Louisiana	962	4.5	23	0.1	985	4.6
Florida	159	0.7	772	3.6	931	4.3
Arizona	89	0.4	799	3.7	888	4.1
Texas	725	3.4	98	0.4	823	3.8
Other	1,340	6.2	4,645	21.5	5,985	27.7
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%
Lien type:						
1st lien	$6,182	28.7%	$14,159	65.5%	$20,341	94.2 %
2nd lien	974	4.5	269	1.3	1,243	5.8
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%
Interest rate type:						
Fixed rate	$3,394	15.8%	$1,822	8.4 %	$5,216	24.2 %
Adjustable rate	3,762	17.4	12,606	58.4	16,368	75.8
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%

(1) PCI loan balances with an origination date in the years subsequent to 2012 represent refinancing of previously acquired home loans.
(2) Modified loans are reported in the origination year of the initial borrowing.

Our recorded investment in home loans that are in process of foreclosure was $149 million and $382 million as of December 31, 2017 and 2016, respectively. We commence the foreclosure process on home loans when a borrower becomes at least 120 days delinquent in accordance with Consumer Financial Protection Bureau regulations. Foreclosure procedures and timelines vary according to state laws. As of December 31, 2017 and 2016, the carrying value of the foreclosed residential real estate properties we hold and include in other assets on our consolidated

balance sheets totaled $39 million and $69 million, respectively.

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Commercial Banking

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

- Noncriticized: Loans that have not been designated as criticized, frequently referred to as "pass" loans.
- Criticized performing: Loans in which the financial condition of the obligor is stressed, affecting earnings, cash flows or collateral values. The borrower currently has adequate capacity to meet near-term obligations; however, the stress, left unabated, may result in deterioration of the repayment prospects at some future date.
- Criticized nonperforming: Loans that are not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as criticized nonperforming have a well-defined weakness, or weaknesses, which jeopardize the full repayment of the debt. These loans are characterized by the distinct possibility that we will sustain a credit loss if the deficiencies are not corrected and are generally placed on nonaccrual status.

We use our internal risk rating system for regulatory reporting, determining the frequency of credit exposure reviews, and evaluating and determining the allowance for loan and lease losses for commercial loans. Loans of $1 million or more that are designated as criticized performing and criticized nonperforming are reviewed quarterly by management to determine if they are appropriately classified/rated and whether any impairment exists. Noncriticized loans of $1 million or more are specifically reviewed, at least annually, to determine the appropriate risk rating. In addition, we evaluate the risk rating during the renewal process of any loan or if a loan becomes past due.

The following table presents the geographic concentration and internal risk ratings of our commercial loan portfolio as of December 31, 2017 and 2016.

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

	December 31, 2017							
(Dollars in millions)	Commercial and Multifamily Real Estate	% of Total	Commercial and Industrial	% of Total	Small-Ticket Commercial Real Estate	% of Total	Total Commercial Banking	% of Total
Geographic concentration:[1]								
Northeast	$14,969	57.3 %	$ 7,774	20.4 %	$ 250	62.4 %	$ 22,993	35.7 %
Mid-Atlantic	2,675	10.2	3,922	10.3	15	3.8	6,612	10.2
South	3,719	14.2	14,739	38.8	22	5.5	18,480	28.6
Other	4,787	18.3	11,590	30.5	113	28.3	16,490	25.5
Total	$26,150	100.0%	$ 38,025	100.0%	$ 400	100.0%	$ 64,575	100.0%
Internal risk rating:[2]								
Noncriticized	$25,609	98.0 %	$ 35,161	92.5 %	$ 392	97.9 %	$ 61,162	94.7 %
Criticized performing	478	1.8	2,170	5.7	1	0.3	2,649	4.1
Criticized nonperforming	38	0.1	239	0.6	7	1.8	284	0.4
PCI loans	25	0.1	455	1.2	0	0.0	480	0.8
Total	$26,150	100.0%	$ 38,025	100.0%	$ 400	100.0%	$ 64,575	100.0%

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(Dollars in millions)	December 31, 2016 Commercial and Multifamily Real Estate	% of Total[1]	Commercial and Industrial	% of Total	Small-Ticket Commercial Real Estate	% of Total	Total Commercial Banking	% of Total
Geographic concentration:[1]								
Northeast	$15,714	59.0 %	$ 9,628	24.2 %	$ 298	61.7 %	$ 25,640	38.3 %
Mid-Atlantic	3,024	11.4	3,450	8.7	16	3.3	6,490	9.7
South	4,032	15.2	15,193	38.1	34	7.0	19,259	28.8
Other	3,839	14.4	11,553	29.0	135	28.0	15,527	23.2
Total	$26,609	100.0%	$ 39,824	100.0%	$ 483	100.0%	$ 66,916	100.0%
Internal risk rating:[2]								
Noncriticized	$26,309	98.9 %	$ 36,046	90.5 %	$ 473	97.9 %	$ 62,828	93.9 %
Criticized performing	242	0.9	2,205	5.5	6	1.3	2,453	3.7
Criticized nonperforming	30	0.1	988	2.5	4	0.8	1,022	1.5
PCI loans	28	0.1	585	1.5	0	0.0	613	0.9
Total	$26,609	100.0%	$ 39,824	100.0%	$ 483	100.0%	$ 66,916	100.0%

(1) Geographic concentration is generally determined by the location of the borrower's business or the location of the collateral associated with the loan. Northeast consists of CT, MA, ME, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DC, DE, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MO, MS, NC, SC, TN and TX.

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

Impaired Loans

The following table presents information on our impaired loans as of December 31, 2017 and 2016, and for the years ended December 31, 2017, 2016 and 2015. Impaired loans include loans modified in TDRs, all nonperforming commercial loans and nonperforming home loans with a specific impairment. Impaired loans without an allowance generally represent loans that have been charged down to the fair value of the underlying collateral for which we believe no additional losses have been incurred, or where the fair value of the underlying collateral meets or exceeds the loan's amortized cost. PCI loans are excluded from the following tables.

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Table 4.9: Impaired Loans

(Dollars in millions)	December 31, 2017					
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
Credit Card:						
Domestic credit card	$639	$ 0	$ 639	$ 208	$ 431	$ 625
International card businesses	173	0	173	84	89	167
Total credit card[1]	812	0	812	292	520	792
Consumer Banking:						
Auto[2]	363	118	481	30	451	730
Home loan	192	41	233	15	218	298
Retail banking	51	10	61	8	53	66
Total consumer banking	606	169	775	53	722	1,094
Commercial Banking:						
Commercial and multifamily real estate	138	2	140	13	127	143
Commercial and industrial	489	222	711	63	648	844
Total commercial lending	627	224	851	76	775	987
Small-ticket commercial real estate	7	0	7	0	7	9
Total commercial banking	634	224	858	76	782	996
Total	$2,052	$ 393	$ 2,445	$ 421	$ 2,024	$ 2,882

(Dollars in millions)	December 31, 2016					
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
Credit Card:						
Domestic credit card	$581	$ 0	$ 581	$ 174	$ 407	$ 566
International card businesses	134	0	134	65	69	129
Total credit card[1]	715	0	715	239	476	695
Consumer Banking:						
Auto[2]	316	207	523	24	499	807
Home loan	241	117	358	19	339	464
Retail banking	52	10	62	14	48	65
Total consumer banking	609	334	943	57	886	1,336
Commercial Banking:						
Commercial and multifamily real estate	83	29	112	7	105	112
Commercial and industrial	1,249	144	1,393	162	1,231	1,444
Total commercial lending	1,332	173	1,505	169	1,336	1,556
Small-ticket commercial real estate	4	0	4	0	4	4
Total commercial banking	1,336	173	1,509	169	1,340	1,560
Total	$2,660	$ 507	$ 3,167	$ 465	$ 2,702	$ 3,591

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	Year Ended December 31,					
	2017		2016		2015	
(Dollars in millions)	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
Credit Card:						
Domestic credit card	$602	$ 63	$540	$ 58	$539	$ 57
International card businesses	154	11	133	10	135	10
Total credit card[1]	756	74	673	68	674	67
Consumer Banking:						
Auto[2]	495	53	501	86	462	82
Home loan	299	5	361	5	364	4
Retail banking	59	1	62	2	56	2
Total consumer banking	853	59	924	93	882	88
Commercial Banking:						
Commercial and multifamily real estate	134	4	111	3	109	3
Commercial and industrial	1,118	18	1,215	13	466	5
Total commercial lending	1,252	22	1,326	16	575	8
Small-ticket commercial real estate	7	0	7	0	7	0
Total commercial banking	1,259	22	1,333	16	582	8
Total	$2,868	$ 155	$2,930	$ 177	$2,138	$ 163

[1] The period-end and average recorded investments of credit card loans include finance charges and fees.
[2] Includes certain TDRs that are recorded as other assets on our consolidated balance sheets.

Total recorded TDRs were $2.2 billion and $2.5 billion as of December 31, 2017 and 2016, respectively. TDRs classified as performing in our credit card and consumer banking loan portfolios totaled $1.3 billion and $1.1 billion as of December 31, 2017 and 2016, respectively. TDRs classified as performing in our commercial banking loan portfolio totaled $574 million and $487 million as of December 31, 2017 and 2016, respectively. Commitments to lend additional funds on loans modified in TDRs totaled $241 million and $208 million as of December 31, 2017 and 2016, respectively.

As part of our loan modification programs to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the major modification types, recorded investment amounts and financial effects of loans modified in TDRs during the years ended December 31, 2017, 2016 and 2015.