

CAPITAL ONE FINANCIAL CORP
Form 10-Q
July 28, 2017

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

FORM 10-Q

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

For the quarterly period ended June 30, 2017

OR

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

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

CAPITAL ONE FINANCIAL CORPORATION
(Exact name of registrant as specified in its charter)

Delaware 54-1719854
(State or Other Jurisdiction of Incorporation or Organization) (I.R.S. Employer Identification No.)
1680 Capital One Drive, 22102
McLean, Virginia (Zip Code)
(Address of Principal Executive Offices)
Registrant's telephone number, including area code: (703) 720-1000
(Former name, former address and former fiscal year, if changed since last report)
(Not applicable)

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

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨

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

Large accelerated filer ý Accelerated filer ¨
Non-accelerated filer ¨ (Do not check if a smaller reporting company) Smaller reporting company ¨
Emerging growth company ¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨

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

As of June 30, 2017, there were 483,692,646 shares of the registrant's Common Stock outstanding.

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PART I—FINANCIAL INFORMATION

Item 2. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)

This discussion contains forward-looking statements that are based upon management’s current expectations and are subject to significant uncertainties and changes in circumstances. Please review “MD&A—Forward-Looking Statements” for more information on the forward-looking statements in this Quarterly Report on Form 10-Q (“this Report”). Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in “Part II—Item 1A. Risk Factors” in this Report and in “Part I—Item 1A. Risk Factors” in our 2016 Annual Report on Form 10-K (“2016 Form 10-K”). Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our unaudited consolidated financial statements as of June 30, 2017 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and related notes in this Report and the more detailed information contained in our 2016 Form 10-K.

INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the “Company”) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of June 30, 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.” Certain business terms used in this document are defined in the “MD&A—Glossary and Acronyms” and should be read in conjunction with the consolidated financial statements included in this Report.

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

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

• Credit Card: Consists of our domestic consumer and small business card lending, and international card businesses in Canada and the United Kingdom (“U.K.”).

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

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

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Recent Acquisitions and Dispositions

We regularly explore and evaluate opportunities to acquire financial services and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy. We also explore opportunities to acquire digital companies and related assets to improve our information technology infrastructure and to deliver on our digital strategy. We also regularly consider the potential disposition of certain of our assets, branches, partnership agreements or lines of business. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions.

On October 3, 2016, we announced that we entered into a 10-year program agreement (the “Program Agreement”) to become the exclusive issuing partner of co-branded credit cards to Cabela’s customers. In connection with this credit card program, we entered into a definitive agreement under which we would acquire the credit card operations from Cabela’s, including approximately \$5.2 billion in credit card receivables and other assets and approximately \$5.0 billion in associated funding liabilities from Cabela’s wholly-owned subsidiary, World’s Foremost Bank (“WFB”). This transaction was subject to the satisfaction of customary closing conditions, including receipt of various regulatory approvals and the approval of the stockholders of Cabela’s. On January 28, 2017, Capital One withdrew its Bank Merger Act (“BMA”) application from the OCC, as we did not expect to receive regulatory approval of any BMA application for this transaction prior to October 3, 2017. This is the date when any of the parties involved in the agreement could terminate the agreement.

On April 17, 2017, we entered into agreements with Synovus Bank, a subsidiary of Synovus Financial Corp. (“Synovus”) and Cabela’s under which Synovus will acquire certain assets and assume certain liabilities of WFB, including WFB’s deposits. Immediately following the completion of this acquisition, Synovus will sell WFB’s credit card assets and related liabilities to Capital One. Synovus will retain WFB’s deposits. Capital One is not required to file any regulatory applications to complete this acquisition from Synovus. These transactions are subject to customary closing conditions, including approval by Synovus’s primary banking regulators. The closing of these transactions is also subject to the closing of the Agreement and Plan of Merger between Cabela’s and Bass Pro Group, LLC, entered into on October 3, 2016. We expect these transactions will close after all closing conditions have been satisfied. These agreements may be terminated by any of the parties if all closing conditions have not been satisfied by October 3, 2017. Upon closing of the acquisition of the credit card assets and related liabilities from Synovus, Capital One will become the exclusive issuing partner of co-branded credit cards to Cabela’s customers under the Program Agreement.

We had no significant acquisitions or dispositions in the first six months of 2017.

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SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data and performance from our results of operations for the second quarter and first six months of 2017 and 2016 and selected comparative balance sheet data as of June 30, 2017 and December 31, 2016. We also provide selected key metrics we use in evaluating our performance including certain metrics that are computed using non-GAAP measures. We believe these non-GAAP metrics provide useful insight to investors and users of our financial information in assessing the results of the Company.

Table 1: Consolidated Financial Highlights

(Dollars in millions, except per share data and as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Income statement						
Net interest income	\$5,473	\$5,093	7%	\$10,947	\$10,149	8%
Non-interest income	1,231	1,161	6	2,292	2,325	(1)
Total net revenue	6,704	6,254	7	13,239	12,474	6
Provision for credit losses	1,800	1,592	13	3,792	3,119	22
Non-interest expense:						
Marketing	435	415	5	831	843	(1)
Amortization of intangibles	61	95	(36)	123	196	(37)
Operating expenses	2,918	2,785	5	5,894	5,479	8
Total non-interest expense	3,414	3,295	4	6,848	6,518	5
Income from continuing operations before income taxes	1,490	1,367	9	2,599	2,837	(8)
Income tax provision	443	424	4	757	876	(14)
Income from continuing operations, net of tax	1,047	943	11	1,842	1,961	(6)
Income (loss) from discontinued operations, net of tax	(11)	(1)	**	4	(6)	**
Net income	1,036	942	10	1,846	1,955	(6)
Dividends and undistributed earnings allocated to participating securities	(8)	(6)	33	(13)	(12)	8
Preferred stock dividends	(80)	(65)	23	(133)	(102)	30
Net income available to common stockholders	\$948	\$871	9	\$1,700	\$1,841	(8)
Common share statistics						
Basic earnings per common share:						
Net income from continuing operations	\$1.98	\$1.70	16%	\$3.51	\$3.57	(2)%
Income (loss) from discontinued operations	(0.02)	—	**	0.01	(0.01)	**
Net income per basic common share	\$1.96	\$1.70	15	\$3.52	\$3.56	(1)
Diluted earnings per common share:						
Net income from continuing operations	\$1.96	\$1.69	16	\$3.48	\$3.53	(1)
Income (loss) from discontinued operations	(0.02)	—	**	0.01	(0.01)	**
Net income per diluted common share	\$1.94	\$1.69	15	\$3.49	\$3.52	(1)
Weighted-average common shares outstanding (in millions):						
Basic	484.0	511.7	(5)%	483.1	517.6	(7)%
Diluted	488.1	516.5	(5)	487.7	522.3	(7)
Common shares outstanding (period-end, in millions)	483.7	505.9	(4)	483.7	505.9	(4)
Dividends paid per common share	\$0.40	\$0.40	—	\$0.80	\$0.80	—
Tangible book value per common share (period-end) ⁽¹⁾	60.94	57.84	5	60.94	57.84	5

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Balance sheet (average balances)

Loans held for investment	\$242,241	\$230,379	5%	\$241,875	\$228,557	6%
Interest-earning assets	318,078	302,764	5	318,215	301,106	6
Total assets	349,891	334,479	5	350,761	333,197	5
Interest-bearing deposits	214,412	195,641	10	213,696	194,883	10
Total deposits	240,550	221,146	9	239,555	220,163	9
Borrowings	48,838	54,359	(10)	51,085	54,060	(6)
Common equity	44,645	45,640	(2)	44,241	45,711	(3)

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(Dollars in millions, except per share data and as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Total stockholders' equity	49,005	48,934	—	48,602	49,007	(1)
Selected performance metrics						
Purchase volume ⁽²⁾	\$83,079	\$78,019	6%	\$156,276	\$146,208	7%
Total net revenue margin ⁽³⁾	8.43%	8.26%	17 bps	8.32%	8.29%	3 bps
Net interest margin ⁽⁴⁾	6.88	6.73	15	6.88	6.74	14
Return on average assets	1.20	1.13	7	1.05	1.18	(13)
Return on average tangible assets ⁽⁵⁾	1.25	1.18	7	1.10	1.24	(14)
Return on average common equity ⁽⁶⁾	8.59	7.64	95	7.67	8.08	(41)
Return on average tangible common equity ("TCE" ⁽⁷⁾)	13.09	11.61	148	11.75	12.28	(53)
Equity-to-assets ratio ⁽⁸⁾	14.01	14.63	(62)	13.86	14.71	(85)
Non-interest expense as a percentage of average loans held for investment ⁽⁹⁾	5.64	5.72	(8)	5.66	5.70	(4)
Efficiency ratio ⁽¹⁰⁾	50.92	52.69	(177)	51.73	52.25	(52)
Effective income tax rate from continuing operations	29.7	31.0	(130)	29.1	30.9	(180)
Net charge-offs	\$1,618	\$1,155	40%	\$3,128	\$2,333	34%
Net charge-off rate ⁽¹¹⁾	2.67%	2.01%	66 bps	2.59%	2.04%	55 bps
(Dollars in millions, except as noted)				June 30, 2017	December 31, 2016	Change
Balance sheet (period-end)						
Loans held for investment				\$244,302	\$245,586	(1)%
Interest-earning assets				319,286	321,807	(1)
Total assets				350,593	357,033	(2)
Interest-bearing deposits				213,810	211,266	1
Total deposits				239,763	236,768	1
Borrowings				49,954	60,460	(17)
Common equity				44,777	43,154	4
Total stockholders' equity				49,137	47,514	3
Credit quality metrics						
Allowance for loan and lease losses				\$7,170	\$6,503	10%
Allowance as a percentage of loans held for investment ("allowance coverage ratio")				2.93%	2.65%	28 bps
30+ day performing delinquency rate				2.69	2.93	(24)
30+ day delinquency rate				2.99	3.27	(28)
Capital ratios						
Common equity Tier 1 capital ⁽¹²⁾				10.7%	10.1%	60 bps
Tier 1 capital ⁽¹²⁾				12.2	11.6	60
Total capital ⁽¹²⁾				14.9	14.3	60
Tier 1 leverage ⁽¹²⁾				10.3	9.9	40
Tangible common equity ⁽¹³⁾				8.8	8.1	70
Supplementary leverage ⁽¹²⁾				8.9	8.6	30
Other						
Employees (period end, in thousands)				49.9	47.3	5%

(1) Tangible book value per common share is a non-GAAP measure calculated based on tangible common equity divided by common shares outstanding. See "MD&A—Table A —Reconciliation of Non-GAAP Measures and

Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.

- (2) Purchase volume consists of 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.
- (3) Total net revenue margin is calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.
- (4) Net interest margin is calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.
Return on average tangible assets is a non-GAAP measure calculated based on annualized income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.
- (5) Return on average tangible assets is a non-GAAP measure calculated based on annualized income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.
- (6) Return on average common equity is calculated based on annualized (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 is a non-GAAP measure calculated based on annualized (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average TCE. Our calculation of return on average TCE may not be comparable to similarly-titled measures reported by other companies. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.
- (7) Equity-to-assets ratio is calculated based on average stockholders’ equity for the period divided by average total assets for the period.
- (8) Non-interest expense as a percentage of average loans held for investment is calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.
- (9) Efficiency ratio is calculated based on non-interest expense for the period divided by total net revenue for the period.
- (10) Net charge-off rate is calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.
- (11) Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provision. See “MD&A—Capital Management” for additional information.
- (12) Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for the calculation of this measure and reconciliation to the comparative U.S. GAAP measure.
- (13) **Change is not meaningful.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

Financial Highlights

We reported net income of \$1.0 billion (\$1.94 per diluted common share) on total net revenue of \$6.7 billion and net income of \$1.8 billion (\$3.49 per diluted common share) on total net revenue of \$13.2 billion for the second quarter and first six months of 2017, respectively. In comparison, we reported net income of \$942 million (\$1.69 per diluted common share) on total net revenue of \$6.3 billion and net income of \$2.0 billion (\$3.52 per diluted common share) on total net revenue of \$12.5 billion for the second quarter and first six months of 2016, respectively.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach, including transition provisions, was 10.7% and 10.1% as of June 30, 2017 and December 31, 2016, respectively. See “MD&A—Capital Management” below for additional information.

On June 29, 2016, we announced that our Board of Directors authorized the repurchase of up to \$2.5 billion in shares of our common stock (“2016 Stock Repurchase Program”) from the third quarter of 2016 through the end of the second quarter of 2017. Through the end of the second quarter of 2017, we repurchased approximately \$2.2 billion of common stock as part of the 2016 Stock Repurchase Program. Additionally, on June 28, 2017, we announced that our Board of Directors authorized the repurchase of up to \$1.85 billion of shares of our common stock (“2017 Stock Repurchase Program”) from the third quarter of 2017 through the end of the second quarter of 2018. See “MD&A—Capital Management” below for additional information.

Below are additional highlights of our performance in the second quarter and first six months of 2017. These highlights are generally based on a comparison between the results of the second quarter and first six months of 2017 and 2016, except as otherwise noted. The changes in our financial condition and credit performance are generally based on our financial condition and credit performance as of June 30, 2017 compared to our financial condition and credit performance as of December 31, 2016. We provide a more detailed discussion of our financial performance in the sections following this “Executive Summary and Business Outlook.”

Total Company Performance

Earnings: Our net income increased by \$94 million to \$1.0 billion in the second quarter of 2017 primarily driven by: higher interest income due to growth in our auto and domestic credit card loan portfolios, as well as higher yields as a result of higher interest rates; and

higher non-interest income primarily attributable to higher net interchange fees driven by higher purchase volume. These increases were partially offset by:
higher provision for credit losses primarily driven by higher charge-offs, partially offset by smaller allowance builds in our domestic credit card and commercial loan portfolios;

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higher interest expense due to higher interest rates and growth in our interest-bearing liabilities; and higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure.

Our net income decreased by \$109 million to \$1.8 billion in the first six months of 2017 primarily due to:

higher provision for credit losses primarily driven by higher charge-offs;

higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure; and

higher interest expense due to higher interest rates and growth in our interest-bearing liabilities.

These higher expenses were partially offset by higher interest income due to growth in our auto and domestic credit card loan portfolios, as well as higher yields as a result of higher interest rates.

Loans Held for Investment:

Period-end loans held for investment decreased by \$1.3 billion to \$244.3 billion as of June 30, 2017 from December 31, 2016 primarily due to expected seasonal paydowns in our domestic credit card loan portfolio and run-off of our acquired home loan portfolio, partially offset by growth in our auto, domestic credit card and commercial loan portfolios.

Average loans held for investment increased by \$11.9 billion to \$242.2 billion in the second quarter of 2017 compared to the second quarter of 2016, and increased by \$13.3 billion to \$241.9 billion in the first six months of 2017 compared to the first six months of 2016, primarily driven by growth in our auto, domestic credit card and commercial loan portfolios, partially offset by run-off of our acquired home loan portfolio.

Net Charge-Off and Delinquency Metrics: Our net charge-off rate increased by 66 basis points to 2.67% in the second quarter of 2017 compared to the second quarter of 2016, and increased by 55 basis points to 2.59% in the first six months of 2017 compared to the first six months of 2016, primarily due to growth and seasoning of recent domestic credit card loan originations, as well as higher losses in our auto loan portfolio due to recent growth and declines in used car auction prices, as well as changes in our charge-off practices for the treatment of certain loans within our consumer banking loan portfolio.

Our 30+ day delinquency rate decreased by 28 basis points to 2.99% as of June 30, 2017 from December 31, 2016 primarily due to seasonally lower delinquency inventories.

We provide additional information on our credit quality metrics below under “MD&A—Business Segment Financial Performance” and “MD&A —Credit Risk Profile.”

Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by \$667 million to \$7.2 billion as of June 30, 2017 from December 31, 2016, and the allowance coverage ratio increased by 28 basis points to 2.93% as of June 30, 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 loss expectations on recent vintages and portfolio seasoning; and

an allowance build in our auto loan portfolio due to higher losses associated with growth.

Business Outlook

We discuss below our current expectations regarding our total company performance and the performance of each of our business segments over the near-term based on market conditions, the regulatory environment and our business strategies as of the time we filed this Report. The statements contained in this section are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in “Part I—Item 1. Business” and “MD&A” in our 2016 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Except as otherwise disclosed, forward-looking statements do not reflect:

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any change in current dividend or repurchase strategies;
the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; or
any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made.

See “MD&A—Forward-Looking Statements” in this Report for more information on the forward-looking statements included in this Report and “Part I—Item 1A. Risk Factors” in our 2016 Form 10-K for factors that could materially influence our results.

Total Company Expectations

All expectations herein exclude any potential impacts of the anticipated Cabela’s acquisition, which is subject to regulatory approval.

We expect annual efficiency ratio for 2017, excluding adjusting items, will be in the 51%s, plus or minus a reasonable margin of volatility.

We expect to deliver earnings per share growth, excluding adjusting items, between 7% and 11% in 2017, assuming no substantial change in the broader credit and economic cycles.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. We believe that we are currently at the destination capital ratios appropriate for our current balance sheet mix. On June 28, 2017, we announced that our Board of Directors 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 as part of the 2017 Stock Repurchase Program. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, opportunities for growth and utilizing Rule 10b5-1 programs, and may be suspended at any time. See “MD&A—Capital Management—Dividend Policy and Stock Purchases” for more information.

Business Segment Expectations

Credit Card: In our Domestic Card business, we expect the full-year 2017 charge-off rate will be in the high 4% to around 5%, with quarterly variability. We continue to expect the impacts of the upward pressure on charge-offs as new loan balances in our front book season and become a larger proportion of our overall portfolio relative to the older and highly seasoned back book, will moderate in the second half of 2017, with a small impact beyond 2017.

Consumer Banking: In our Consumer Banking business, we expect that the charge-off rate in our auto finance business will increase gradually and the growth we have experienced in that business will moderate. Beginning in the third quarter of 2017 and continuing into 2018, we expect changes in our charge-off practices for certain loans to increase annualized Auto charge-off rates by 15 to 20 basis points, after which the effect begins to reverse over time.

Commercial Banking: In our Commercial Banking business, we expect credit pressures will continue to be focused in our oil field service and taxi medallion lending portfolios.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the second quarter and first six months of 2017 and 2016. We provide a discussion of our business segment results in the following section, “MD&A—Business Segment Financial Performance.” You should read this section together with our “MD&A—Executive Summary and Business Outlook,” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

Net interest income represents the difference between the interest income, including certain fees, earned on our interest-earning assets and the interest expense on our interest-bearing liabilities. Interest-earning assets include loans, investment securities and other interest-earning assets, while our interest-bearing liabilities include interest-bearing deposits, securitized debt obligations,

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senior and subordinated notes, and other borrowings. Generally, we include in interest income any past due fees on loans that we deem collectible. Our net interest margin, based on our consolidated results, represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest-bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 2 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balance, interest income earned or interest expense incurred, and average yield for the second quarter and first six months of 2017 and 2016.

Table 2: Average Balances, Net Interest Income and Net Interest Margin

(Dollars in millions)	Three Months Ended June 30,					
	2017			2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Loans: ⁽¹⁾						
Credit card	\$100,043	\$ 3,787	15.14 %	\$94,374	\$ 3,420	14.50 %
Consumer banking	74,644	1,223	6.55	71,170	1,116	6.27
Commercial banking ⁽²⁾	68,220	647	3.79	65,872	567	3.44
Other ⁽³⁾	60	12	80.00	80	45	225.00
Total loans, including loans held for sale	242,967	5,669	9.33	231,496	5,148	8.90
Investment securities	68,857	433	2.52	65,754	405	2.46
Cash equivalents and other interest-earning assets	6,254	26	1.66	5,514	18	1.31
Total interest-earning assets	318,078	6,128	7.71	302,764	5,571	7.36
Cash and due from banks	3,314			3,129		
Allowance for loan and lease losses	(6,982)			(5,425)		
Premises and equipment, net	3,855			3,645		
Other assets	31,626			30,366		
Total assets	\$349,891			\$334,479		
Liabilities and stockholders' equity:						
Interest-bearing liabilities: ⁽³⁾						
Deposits	\$214,412	\$ 382	0.71 %	\$195,641	\$ 292	0.60 %
Securitized debt obligations	18,400	82	1.78	15,226	47	1.23
Senior and subordinated notes	27,821	179	2.57	21,717	111	2.04
Other borrowings and liabilities	3,656	12	1.31	18,255	28	0.61
Total interest-bearing liabilities	264,289	655	0.99	250,839	478	0.76
Non-interest-bearing deposits	26,138			25,505		
Other liabilities	10,459			9,201		
Total liabilities	300,886			285,545		
Stockholders' equity	49,005			48,934		
Total liabilities and stockholders' equity	\$349,891			\$334,479		
Net interest income/spread		\$ 5,473	6.72		\$ 5,093	6.60
Impact of non-interest-bearing funding			0.16			0.13
Net interest margin			6.88%			6.73 %

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(Dollars in millions)	Six Months Ended June 30, 2017			2016		
	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Loans: ⁽¹⁾						
Credit card	\$100,603	\$7,577	15.06 %	\$93,766	\$6,813	14.53 %
Consumer banking	74,081	2,413	6.51	70,805	2,204	6.23
Commercial banking ⁽²⁾	67,863	1,262	3.72	64,878	1,107	3.41
Other ⁽³⁾	63	43	136.51	85	109	256.47
Total loans, including loans held for sale	242,610	11,295	9.31	229,534	10,233	8.92
Investment securities	68,637	849	2.47	65,455	820	2.51
Cash equivalents and other interest-earning assets	6,968	54	1.55	6,117	35	1.14
Total interest-earning assets	318,215	12,198	7.67	301,106	11,088	7.36
Cash and due from banks	3,400			3,244		
Allowance for loan and lease losses	(6,749)			(5,278)		
Premises and equipment, net	3,826			3,643		
Other assets	32,069			30,482		
Total assets	\$350,761			\$333,197		
Liabilities and stockholders' equity:						
Interest-bearing liabilities: ⁽³⁾						
Deposits	\$213,696	\$735	0.69%	\$194,883	\$575	0.59%
Securitized debt obligations	17,791	151	1.70	15,293	95	1.24
Senior and subordinated notes	26,321	328	2.49	21,855	217	1.99
Other borrowings and liabilities	7,981	37	0.93	17,716	52	0.59
Total interest-bearing liabilities	265,789	1,251	0.94	\$249,747	939	0.75
Non-interest-bearing deposits	25,859			25,280		
Other liabilities	10,511			9,163		
Total liabilities	302,159			284,190		
Stockholders' equity	48,602			49,007		
Total liabilities and stockholders' equity	\$350,761			\$333,197		
Net interest income/spread		\$10,947	6.73		\$10,149	6.61
Impact of non-interest-bearing funding			0.15			0.13
Net interest margin			6.88%			6.74 %

(1) Past due fees included in interest income totaled approximately \$382 million and \$766 million in the second quarter and first six months of 2017, respectively, and \$354 million and \$706 million in the second quarter and first six months of 2016, respectively.

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

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

Net interest income increased by \$380 million to \$5.5 billion in the second quarter of 2017 compared to the second quarter of 2016 and increased by \$798 million to \$10.9 billion in the first six months of 2017 compared to the first six months of 2016. Net interest margin increased by 15 basis points to 6.88% in the second quarter of 2017 compared to the second quarter of 2016 and increased by 14 basis points to 6.88% in the first six months of 2017 compared to the first six months of 2016. These increases were primarily driven by:

• growth in our auto and domestic credit card loan portfolios; and
• higher yields as a result of higher interest rates.

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These increases were partially offset by:

• higher interest expense due to higher interest rates and growth in our interest-bearing liabilities; and
 • one less day in the first six months of 2017.

Table 3 displays the change in our net interest income between periods and the extent to which the variance is attributable to:

• changes in the volume of our interest-earning assets and interest-bearing liabilities; or
 • changes in the interest rates related to these assets and liabilities.

Table 3: Rate/Volume Analysis of Net Interest Income⁽¹⁾

(Dollars in millions)	Three Months Ended June 30, 2017 vs. 2016			Six Months Ended June 30, 2017 vs. 2016		
	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	\$367	\$ 210	\$ 157	\$764	\$ 509	\$255
Consumer banking	107	56	51	209	104	105
Commercial banking ⁽²⁾	80	21	59	155	53	102
Other	(33)	(9)	(24)	(66)	(23)	(43)
Total loans, including loans held for sale	521	278	243	1,062	643	419
Investment securities	28	19	9	29	39	(10)
Cash equivalents and other interest-earning assets	8	3	5	19	5	14
Total interest income	557	300	257	1,110	687	423
Interest expense:						
Deposits	90	29	61	160	59	101
Securitized debt obligations	35	11	24	56	17	39
Senior and subordinated notes	68	35	33	111	49	62
Other borrowings and liabilities	(16)	(22)	6	(15)	(29)	14
Total interest expense	177	53	124	312	96	216
Net interest income	\$380	\$ 247	\$ 133	\$798	\$ 591	\$207

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

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

Non-Interest Income

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

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Table 4 displays the components of non-interest income for the second quarter and first six months of 2017 and 2016.

Table 4: Non-Interest Income

(Dollars in millions)	Three Months		Six Months	
	Ended June 30, 2017	2016 ⁽¹⁾	Ended June 30, 2017	2016 ⁽¹⁾
Interchange fees, net	\$676	\$621	\$1,246	\$1,225
Service charges and other customer-related fees	418	393	789	816
Net securities gains (losses)	(4)	—	(4)	(8)
Other non-interest income:				
Benefit for mortgage representation and warranty losses ⁽²⁾	—	1	25	2
Net fair value gains on free-standing derivatives	23	22	40	52
Other	118	124	196	238
Total other non-interest income	141	147	261	292
Total non-interest income	\$1,231	\$1,161	\$2,292	\$2,325

We made certain non-interest income reclassifications in the fourth quarter of 2016 to conform to the current period presentation. The primary net effects of the reclassifications compared to previously reported results were (i) an increase to Service charges and other customer-related fees of \$22 million and \$41 million for the three and six months ended June 30, 2016, respectively; and (ii) a decrease to Other non-interest income of \$29 million and \$56 million for the three and six months ended June 30, 2016, respectively. We have also consolidated the Non-interest income presentation of Other-than-temporary impairment (“OTTI”) with net realized gains or losses from investment securities into a new Net securities gains (losses) line. See Note 1—Summary of Significant Accounting Policies in our 2016 Form 10-K for additional information.

⁽²⁾ Represents the benefit for mortgage representation and warranty losses recorded in continuing operations. Non-interest income increased by \$70 million to \$1.2 billion in the second quarter of 2017 compared to the second quarter of 2016 primarily due to an increase in gross interchange fees driven by higher purchase volume. This increase was partially offset by higher rewards expense due to higher purchase volume and the continued expansion of our rewards franchise, net of the impact of updated rewards cost estimates.

Non-interest income decreased by \$33 million to \$2.3 billion in the first six months of 2017 compared to the first six months of 2016 primarily driven by:

- lower service charges and other customer-related fees primarily due to the exit of our legacy payment protection products in our Domestic Card business during the first quarter of 2016; and
- higher rewards expense due to higher purchase volume and the continued expansion of our rewards franchise, net of the impact of updated rewards cost estimates.

These decreases were partially offset by an increase in gross interchange fees driven by higher purchase volume.

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of \$1.8 billion and \$3.8 billion in the second quarter and first six months of 2017, respectively, compared to \$1.6 billion and \$3.1 billion in the second quarter and first six months of 2016, respectively. The provision for credit losses as a percentage of net interest income was 32.9% and 34.6% in the second quarter and first six months of 2017, respectively, compared to 31.3% and 30.7% in the second quarter and first six months of 2016, respectively.

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Our provision for credit losses increased by \$208 million in the second quarter of 2017 compared to the second quarter of 2016 primarily driven by:

- higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning;
- higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices; and
- higher charge-offs in our commercial loan portfolio as a result of continued adverse industry conditions impacting certain segments of our oil and gas lending portfolio and our taxi medallion lending portfolio.

These increases were partially offset by smaller allowance builds in our domestic credit card and commercial loan portfolios.

Our provision for credit losses increased by \$673 million in the first six months of 2017 compared to the first six months of 2016 primarily driven by:

- higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning;
- a larger allowance build in our domestic credit card loan portfolio due to increasing loss expectations on recent vintages and portfolio seasoning; and
- higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices.

These increases were partially offset by an allowance release in our Commercial Banking business in the first six months of 2017 compared to a build in the first six months of 2016, primarily reflecting charge-offs in our taxi medallion lending portfolio and certain segments of our oil and gas lending portfolio.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses within “MD&A—Credit Risk Profile,” “Note 4—Loans” and “Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments.” For information on the allowance methodology for each of our loan categories, see “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K.

Non-Interest Expense

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

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Table 5 displays the components of non-interest expense for the second quarter and first six months of 2017 and 2016.

Table 5: Non-Interest Expense

(Dollars in millions)	Three Months		Six Months	
	Ended June 30, 2017	2016 ⁽¹⁾	Ended June 30, 2017	2016 ⁽¹⁾
Salaries and associate benefits	\$1,383	\$1,279	\$2,854	\$2,549
Occupancy and equipment	474	465	945	923
Marketing	435	415	831	843
Professional services	279	264	526	505
Communications and data processing	289	302	577	582
Amortization of intangibles	61	95	123	196
Other non-interest expense:				
Collections	88	77	173	158
Fraud losses	78	89	156	179
Bankcard, regulatory and other fee assessments	146	129	282	236
Other	181	180	381	347
Total other non-interest expense	493	475	992	920
Total non-interest expense	\$3,414	\$3,295	\$6,848	\$6,518

We made certain non-interest expense reclassifications in the fourth quarter of 2016 to conform to the current period presentation. The net effects of the reclassifications for the three and six months ended June 30, 2016

⁽¹⁾ compared to previously reported results were increases to Communications and data processing expense of \$40 million and \$77 million, respectively, with corresponding decreases to Professional services. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for additional information.

Non-interest expense increased by \$119 million to \$3.4 billion in the second quarter of 2017 compared to the second quarter of 2016, and increased by \$330 million to \$6.8 billion in the first six months of 2017 compared to the first six months of 2016 primarily due to higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure, partially offset by lower amortization of intangibles.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations consists of results from the discontinued mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”) and the discontinued 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. Loss from discontinued operations, net of tax, was \$11 million in the second quarter of 2017, compared to a loss of \$1 million in the second quarter of 2016. Income from discontinued operations, net of tax, was \$4 million in the first six months of 2017, compared to a loss of \$6 million in the first six months of 2016.

We recorded a provision related to our mortgage representation and warranty reserve, net of tax, of \$2 million (\$6 million before tax) in the second quarter of 2017 primarily driven by settlement activities. We recorded a release, net of tax, of \$40 million (\$61 million before tax) in the first six months of 2017 primarily as a result of favorable legal developments, partially offset by a pre-tax charge of \$42 million to record a liability related to our contingent obligation to exercise certain mandatory clean-up calls associated with manufactured housing securitizations undertaken by GreenPoint Credit, LLC.

We provide additional information on the discontinued operations in “Note 2—Discontinued Operations” and on the net benefit (provision) for mortgage representation and warranty losses and the related reserve for representation and warranty claims in “MD&A—Consolidated Balance Sheets Analysis—Mortgage Representation and Warranty Reserve” and “Note 14—Commitments, Contingencies, Guarantees and Others.”

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Income Taxes

We recorded income tax provisions of \$443 million (29.7% effective income tax rate) and \$757 million (29.1% effective income tax rate) in the second quarter and first six months of 2017, respectively, compared to \$424 million (31.0% effective income tax rate) and \$876 million (30.9% effective income tax rate) in the second quarter and first six months of 2016, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the second quarter of 2017 from the second quarter of 2016 was primarily due to increases in the relative benefit of tax exempt income and tax credits, partially offset by reduced benefits associated with foreign earnings.

The decrease in our effective income tax rate in the first six months of 2017 from the first six months of 2016 was primarily due to:

- increases in the relative benefit of tax exempt income and tax credits; and
- increased discrete tax benefits recorded in the first six months of 2017.

These decreases were partially offset by reduced benefits associated with foreign earnings.

We provide additional information on items affecting our income taxes and effective tax rate under “Note 16—Income Taxes” in our 2016 Form 10-K.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets decreased by \$6.4 billion to \$350.6 billion as of June 30, 2017 from December 31, 2016 primarily due to:

- a decrease in cash, cash equivalents and restricted cash for securitization investors, partially offset by an increase in investment securities due to purchases outpacing paydowns; and
- a decrease in loans held for investment primarily due to expected seasonal paydowns in our domestic credit card loan portfolio and run-off of our acquired home loan portfolio, partially offset by growth in our auto, domestic credit card and commercial loan portfolios.

Total liabilities decreased by \$8.1 billion to \$301.5 billion as of June 30, 2017 from December 31, 2016 primarily driven by:

- a decrease in other debt primarily attributable to a decrease in our FHLB advances outstanding, partially offset by an increase in our senior and subordinated notes.

Stockholders’ equity increased by \$1.6 billion to \$49.1 billion as of June 30, 2017 from December 31, 2016 primarily due to:

- our net income of \$1.8 billion in the first six months of 2017.

This increase was partially offset by:

- \$526 million of dividend payments to our common and preferred stockholders; and
- \$219 million of treasury stock purchases.

The following is a discussion of material changes in the major components of our assets and liabilities during the first six months of 2017. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing the liquidity requirements of the Company and our customers and our market risk exposure in accordance with our risk appetite.

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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 and non-agency commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other securities. The carrying value of our investments in U.S. Treasury and Agency securities represented 91% of our total investment securities as of both June 30, 2017 and December 31, 2016.

The fair value of our available for sale securities portfolio was \$41.1 billion as of June 30, 2017, an increase of \$383 million from December 31, 2016. The increase in fair value was primarily due to a decline in interest rates. The fair value of our held to maturity securities portfolio was \$28.4 billion as of June 30, 2017, an increase of \$2.2 billion from December 31, 2016. The increase in the fair value was primarily driven by purchases outpacing paydowns.

Gross unrealized gains on our available for sale securities portfolio increased to \$647 million as of June 30, 2017 compared to \$539 million as of December 31, 2016, and gross unrealized losses on this portfolio decreased to \$360 million as of June 30, 2017 compared to \$535 million as of December 31, 2016, both of which were primarily due to declines in interest rates. Of the \$360 million gross unrealized losses as of June 30, 2017, \$107 million was related to securities that had been in a loss position for 12 months or longer.

Table 6 presents the amortized cost, carrying value and fair value for the major categories of our investment securities portfolio as of June 30, 2017 and December 31, 2016.

Table 6: Investment Securities

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$5,218	\$5,215	\$5,103	\$5,065
RMBS:				
Agency ⁽¹⁾	26,693	26,511	26,830	26,527
Non-agency	2,163	2,617	2,349	2,722
Total RMBS	28,856	29,128	29,179	29,249
CMBS:				
Agency ⁽¹⁾	3,136	3,124	3,335	3,304
Non-agency	1,777	1,802	1,676	1,684
Total CMBS	4,913	4,926	5,011	4,988
Other ABS ⁽²⁾	626	627	714	714
Other securities ⁽³⁾	1,220	1,224	726	721
Total investment securities available for sale	\$40,833	\$41,120	\$40,733	\$40,737

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity:				
U.S. Treasury securities	\$199	\$199	\$199	\$199
Agency RMBS	23,910	24,537	22,125	22,573
Agency CMBS	3,611	3,687	3,388	3,424
Total investment securities held to maturity	\$27,720	\$28,423	\$25,712	\$26,196

Includes securities guaranteed by Government National Mortgage Association (“Ginnie Mae”) and securities issued (1) by Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”).

ABS collateralized by credit card loans constituted approximately 49% and 57% of the other ABS portfolio as of June 30, 2017 and December 31, 2016, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 23% of the other ABS portfolio as of both June 30, 2017 and December 31, 2016.

(3) Includes supranational bonds, foreign government bonds, mutual funds and equity investments.

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. As of June 30, 2017 and December 31, 2016, approximately 96% and 95% of our total investment securities portfolio was rated AA+ or its equivalent, or better, respectively, while approximately 4% was below investment grade as of both June 30, 2017 and December 31, 2016. We categorize the credit ratings of our investment securities based on the lower of credit ratings as issued by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's").

Table 7 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of June 30, 2017 and December 31, 2016.

Table 7: Non-Agency Investment Securities Credit Ratings

(Dollars in millions)	June 30, 2017				December 31, 2016			
	Fair Value	AAA	Other Investment Grade	Below Investment Grade ⁽¹⁾	Fair Value	AAA	Other Investment Grade	Below Investment Grade ⁽¹⁾
Non-agency RMBS	\$2,617	—	3%	97%	\$2,722	—	3%	97%
Non-agency CMBS	1,802	100%	—	—	1,684	100%	—	—
Other ABS	627	99	1	—	714	99	1	—
Other securities	1,224	79	13	8	721	62	25	13

⁽¹⁾ Includes investment securities that were not rated.

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

Loans Held for Investment

Total loans held for investment ("HFI") consists of both unsecuritized loans and loans held in our consolidated trusts.

Table 8 summarizes the carrying value of our portfolio of loans held for investment by portfolio segment, net of the allowance for loan and lease losses, as of June 30, 2017 and December 31, 2016.

Table 8: Loans Held for Investment

(Dollars in millions)	June 30, 2017			December 31, 2016		
	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	\$101,590	\$ 5,210	\$96,380	\$105,552	\$ 4,606	\$100,946
Consumer Banking	74,973	1,199	73,774	73,054	1,102	71,952
Commercial Banking	67,672	758	66,914	66,916	793	66,123
Other	67	3	64	64	2	62
Total	\$244,302	\$ 7,170	\$237,132	\$245,586	\$ 6,503	\$239,083

Loans held for investment decreased by \$1.3 billion to \$244.3 billion as of June 30, 2017 from December 31, 2016 primarily due to expected seasonal paydowns in our domestic credit card loan portfolio and run-off of our acquired home loan portfolio, partially offset by growth in our auto, domestic credit card and commercial loan portfolios.

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

Deposits

Our deposits represent our largest source of funding for our operations and provide a consistent source of low-cost funds. Total deposits were substantially flat at \$239.8 billion as of June 30, 2017. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield in "MD&A—Liquidity Risk Profile."

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Securitized Debt Obligations

Securitized debt obligations decreased to \$18.4 billion as of June 30, 2017 from \$18.8 billion as of December 31, 2016, as debt maturities exceeded issuances during the first six months of 2017. We provide additional information on our borrowings in “MD&A—Liquidity Risk Profile” and in “Note 8—Deposits and Borrowings.”

Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes, and Federal Home Loan Banks (“FHLB”) advances, totaled \$31.6 billion as of June 30, 2017, of which \$30.6 billion represented long-term debt and the remainder represented short-term borrowings. Other debt totaled \$41.6 billion as of December 31, 2016, of which \$40.6 billion represented long-term debt and the remainder represented short-term borrowings.

The decrease in other debt of \$10.0 billion in the first six months of 2017 was primarily attributable to a decrease in our FHLB advances outstanding, partially offset by an increase in our senior and subordinated notes. We provide additional information on our borrowings in “MD&A—Liquidity Risk Profile” and in “Note 8—Deposits and Borrowings.”

Mortgage Representation and Warranty Reserve

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

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities decreased to \$521 million as of June 30, 2017 compared to \$630 million as of December 31, 2016 primarily due to favorable legal developments.

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental reserve under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of June 30, 2017 is approximately \$1.3 billion, a decrease from our estimate of \$1.5 billion as of December 31, 2016.

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

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in certain activities that are not reflected on our consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities typically involve transactions with unconsolidated variable interest entities (“VIEs”) as well as other arrangements, such as letter of credits, loan commitments and guarantees, to meet the financing needs of our customers and support their ongoing operations. We provide additional information regarding these types of activities in the “MD&A—Liquidity Risk Profile” as well as “Note 6—Variable Interest Entities and Securitizations” and “Note 14—Commitments, Contingencies, Guarantees and Others.”

Table of Contents**BUSINESS SEGMENT FINANCIAL PERFORMANCE**

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

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 18—Business Segments” in our 2016 Form 10-K.

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

Below we summarize our business segment results for the second quarter and first six months of 2017 and 2016 and provide a comparative discussion of these results, as well as changes in our financial condition and credit performance metrics as of June 30, 2017 compared to December 31, 2016. We provide a reconciliation of our total business segment results to our reported consolidated results in “Note 13—Business Segments.” Additionally, we provide information on the outlook for each of our business segments as described above in “MD&A—Executive Summary and Business Outlook.”

Business Segment Financial Performance

Table 9 summarizes our business segment results, which we report based on revenue and income from continuing operations, for the second quarter and first six months of 2017 and 2016. We provide information on the allocation methodologies used to derive our business segment results in “Note 18—Business Segments” in our 2016 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated U.S. GAAP results in “Note 13—Business Segments” of this Report.

Table 9: Business Segment Results

	Three Months Ended June 30,							
	2017				2016			
	Total Net Revenue ⁽¹⁾		Net Income ⁽²⁾		Total Net Revenue ⁽¹⁾		Net Income ⁽²⁾	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	\$4,169	63%	\$553	53%	\$3,904	62%	\$484	51%
Consumer Banking	1,761	26	276	26	1,614	26	257	27
Commercial Banking ⁽³⁾	752	11	146	14	688	11	138	15
Other ⁽⁴⁾	22	—	72	7	48	1	64	7
Total	\$6,704	100%	\$1,047	100%	\$6,254	100%	\$943	100%

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(Dollars in millions)	Six Months Ended June 30,							
	2017				2016			
	Total Net Revenue ⁽¹⁾		Net Income ⁽²⁾		Total Net Revenue ⁽¹⁾		Net Income ⁽²⁾	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	\$8,253	63%	\$824	45%	\$7,784	62%	\$1,093	56%
Consumer Banking	3,473	26	524	28	3,225	26	506	26
Commercial Banking ⁽³⁾	1,476	11	359	20	1,343	11	205	10
Other ⁽⁴⁾	37	—	135	7	122	1	157	8
Total	\$13,239	100%	\$1,842	100%	\$12,474	100%	\$1,961	100%

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

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

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

(4) The Other category includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expenses that do not directly support the operations of the business segments and other items as described in “Note 18—Business Segments” in our 2016 Form 10-K.

Credit Card Business

The primary sources of revenue for our Credit Card business are interest income, net interchange income and fees collected from customers. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Credit Card business generated net income from continuing operations of \$553 million and \$824 million in the second quarter and first six months of 2017, respectively, and \$484 million and \$1.1 billion in the second quarter and first six months of 2016, respectively.

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Table 10 summarizes the financial results of our Credit Card business and displays selected key metrics for the periods indicated.

Table 10: Credit Card Business Results

(Dollars in millions, except as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	\$3,294	\$ 3,045	8%	\$6,640	\$6,078	9%
Non-interest income	875	859	2	1,613	1,706	(5)
Total net revenue ⁽¹⁾	4,169	3,904	7	8,253	7,784	6
Provision for credit losses	1,397	1,261	11	3,114	2,332	34
Non-interest expense	1,918	1,883	2	3,847	3,746	3
Income from continuing operations before income taxes	854	760	12	1,292	1,706	(24)
Income tax provision	301	276	9	468	613	(24)
Income from continuing operations, net of tax	\$553	\$ 484	14	\$824	\$1,093	(25)
Selected performance metrics:						
Average loans held for investment ⁽²⁾	\$100,043	\$ 94,382	6	\$100,603	\$93,684	7
Average yield on loans held for investment ⁽³⁾	15.14%	14.49%	65 bps	15.06%	14.55%	51 bps
Total net revenue margin ⁽⁴⁾	16.67	16.55	12	16.41	16.62	(21)
Net charge-offs	\$1,256	\$ 949	32%	\$2,527	\$1,899	33%
Net charge-off rate	5.02%	4.02%	100 bps	5.02%	4.05%	97 bps
Purchased credit card relationship (“PCCR”) intangible amortization	\$44	\$ 67	(34)%	\$88	\$137	(36)%
Purchase volume ⁽⁵⁾	83,079	78,019	6	156,276	146,208	7
(Dollars in millions, except as noted)	June 30, 2017	December 31, 2016	Change			
Selected period-end data:						
Loans held for investment ⁽²⁾	\$101,590	\$ 105,552	(4)%			
30+ day performing delinquency rate	3.60%	3.91%	(31)bps			
30+ day delinquency rate	3.62	3.94	(32)			
Nonperforming loan rate ⁽⁶⁾	0.03	0.04	(1)			
Allowance for loan and lease losses	\$5,210	\$ 4,606	13%			
Allowance coverage ratio ⁽⁷⁾	5.13	% 4.36%	77 bps			

We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by \$313 million and \$634 million in the second quarter and first six months of 2017, respectively, and by \$244 million and \$472 million in the second quarter and first six months of 2016, respectively, for the estimated uncollectible amount of billed finance charges and fees and related losses. The finance charge and fee reserve totaled \$401 million and \$402 million as of June 30, 2017 and December 31, 2016, respectively.

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

(3) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds

transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

- (4) Total net revenue margin is calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Interest income also includes interest income on loans held for sale.
- (5) Purchase volume consists of 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.
- (6) Within our credit card loan portfolio, only certain loans in our international card businesses are classified as nonperforming. See “MD&A—Nonperforming Loans and Other Nonperforming Assets” for additional information.
- (7) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

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Key factors affecting the results of our Credit Card business for the second quarter and first six months of 2017 compared to the second quarter and first six months of 2016, and changes in financial condition and credit performance between June 30, 2017 and December 31, 2016 include the following:

• Net Interest Income: Net interest income increased by \$249 million to \$3.3 billion in the second quarter of 2017 and increased by \$562 million to \$6.6 billion in the first six months of 2017 primarily driven by loan growth and higher yields as a result of higher interest rates in our Domestic Card business.

• Non-Interest Income: Non-interest income increased by \$16 million to \$875 million in the second quarter of 2017 primarily driven by:

an increase in gross interchange fees driven by higher purchase volume; and
the absence of a U.K. PPI Reserve build in the second quarter of 2017.

These increases were partially offset by:

higher rewards expense due to higher purchase volume and the continued expansion of our rewards franchise, net of the impact of updated rewards cost estimates; and

the absence of a gain recorded in the second quarter of 2016 related to the exchange of our ownership interest in Visa Europe with Visa Inc. as a result of Visa Inc.'s acquisition of Visa Europe.

Non-interest income decreased by \$93 million to \$1.6 billion in the first six months of 2017 primarily driven by:

higher rewards expense due to higher purchase volume and the continued expansion of our rewards franchise, net of the impact of updated rewards cost estimates;

lower service charges and other customer-related fees primarily due to the exit of our legacy payment protection products in our Domestic Card business during the first quarter of 2016; and

the absence of a gain recorded in the second quarter of 2016 related to the exchange of our ownership interest in Visa Europe with Visa Inc. as a result of Visa Inc.'s acquisition of Visa Europe.

These decreases were partially offset by an increase in gross interchange fees driven by higher purchase volume.

• Provision for Credit Losses: The provision for credit losses increased by \$136 million to \$1.4 billion in the second quarter of 2017 primarily driven by higher charge-offs due to growth and portfolio seasoning, partially offset by a smaller allowance build in our domestic credit card loan portfolio.

The provision for credit losses increased by \$782 million to \$3.1 billion in the first six months of 2017 primarily driven by:

higher charge-offs due to growth and portfolio seasoning; and

a larger allowance build in our domestic credit card loan portfolio due to increasing loss expectations on recent vintages and portfolio seasoning.

• Non-Interest Expense: Non-interest expense increased by \$35 million to \$1.9 billion in the second quarter of 2017 primarily driven by higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure. This increase was partially offset by:

continued improvement in efficiency and scale;

lower amortization of intangibles; and

lower other non-interest expense primarily driven by the absence of a U.K. PPI Reserve build in the second quarter of 2017.

Non-interest expense increased by \$101 million to \$3.8 billion in the first six months of 2017 primarily driven by higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure. This increase was partially offset by:

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continued improvement in efficiency and scale;
lower amortization of intangibles; and
lower marketing expenses.

Loans Held for Investment: Period-end loans held for investment decreased by \$4.0 billion to \$101.6 billion as of June 30, 2017 from December 31, 2016 primarily due to expected seasonal paydowns, partially offset by continued loan growth in our Domestic Card business. Average loans held for investment increased by \$5.7 billion to \$100.0 billion in the second quarter of 2017 compared to the second quarter of 2016 and increased by \$6.9 billion to \$100.6 billion in the first six months of 2017 compared to the first six months of 2016 primarily due to growth in our domestic credit card loan portfolio.

Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 100 basis points to 5.02% in the second quarter of 2017 compared to the second quarter of 2016 and increased by 97 basis points to 5.02% in the first six months of 2017 compared to the first six months of 2016 primarily driven by growth and seasoning of recent domestic credit card loan originations, partially offset by loan balance growth in our domestic credit card loan portfolio. The 30+ day delinquency rate decreased by 32 basis points to 3.62% as of June 30, 2017 from December 31, 2016 primarily due to seasonally lower delinquency inventories, partially offset by seasonally lower loan balances in our domestic credit card loan portfolio.

Domestic Card Business

Domestic Card generated net income from continuing operations of \$482 million and \$760 million in the second quarter and first six months of 2017, respectively, compared to net income from continuing operations of \$463 million and \$1.0 billion in the second quarter and first six months of 2016, respectively. In the second quarter and first six months of 2017 and 2016, Domestic Card accounted for greater than 90% of total net revenue of our Credit Card business.

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Table 10.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

Table 10.1: Domestic Card Business Results

(Dollars in millions, except as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	\$3,011	\$ 2,769	9%	\$6,104	\$5,525	10%
Non-interest income	802	792	1	1,501	1,566	(4)
Total net revenue ⁽¹⁾	3,813	3,561	7	7,605	7,091	7
Provision for credit losses	1,327	1,164	14	2,964	2,136	39
Non-interest expense	1,727	1,669	3	3,444	3,340	3
Income from continuing operations before income taxes	759	728	4	1,197	1,615	(26)
Income tax provision	277	265	5	437	588	(26)
Income from continuing operations, net of tax	\$482	\$ 463	4	\$760	\$1,027	(26)
Selected performance metrics:						
Average loans held for investment ⁽²⁾	\$91,769	\$ 85,981	7	\$92,398	\$85,564	8
Average yield on loans held for investment ⁽³⁾	15.07%	14.40%	67 bps	15.04%	14.41%	63 bps
Total net revenue margin ⁽⁴⁾	16.62	16.57	5	16.46	16.58	(12)
Net charge-offs	\$1,172	\$ 874	34%	\$2,368	\$1,761	34%
Net charge-off rate	5.11%	4.07%	104 bps	5.12%	4.12%	100 bps
PCCR intangible amortization	\$44	\$ 67	(34)%	\$88	\$137	(36)%
Purchase volume ⁽⁵⁾	75,781	71,050	7	142,731	133,667	7
(Dollars in millions, except as noted)	June 30, December 31,		Change			
	2017	2016				
Selected period-end data:						
Loans held for investment ⁽²⁾	\$92,866	\$ 97,120	(4)%			
30+ day delinquency rate	3.63%	3.95%	(32)bps			
Allowance for loan and lease losses	\$4,825	\$ 4,229	14%			
Allowance coverage ratio ⁽⁶⁾	5.20%	4.35%	85 bps			

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

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

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

(4) Total net revenue margin is calculated by dividing annualized total net revenue for the period by average loans held for investment during the period.

(5) Purchase volume consists of 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.

(6)

Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results are similar to the key factors affecting our total Credit Card business. Net income for our Domestic Card business increased in the second quarter of 2017 compared to the second quarter of 2016 primarily driven by higher net interest income resulting from loan growth and higher yields as a result of higher interest rates. This increase was partially offset by:

• higher provision for credit losses; and

• higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure.

Net income for our Domestic Card business decreased in the first six months of 2017 compared to the first six months of 2016 primarily driven by:

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• higher provision for credit losses;
• higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure; and
• lower non-interest income.

These drivers were partially offset by:

• higher net interest income resulting from loan growth and higher yields as a result of higher interest rate; and
• lower marketing expenses.

Consumer Banking Business

The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from service charges and customer-related fees. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Consumer Banking business generated net income from continuing operations of \$276 million and \$524 million in the second quarter and first six months of 2017, respectively, and \$257 million and \$506 million in the second quarter and first six months of 2016, respectively.

Table 11 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

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Table 11: Consumer Banking Business Results

(Dollars in millions, except as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	\$1,578	\$1,439	10%	\$3,095	\$2,859	8%
Non-interest income	183	175	5	378	366	3
Total net revenue	1,761	1,614	9	3,473	3,225	8
Provision for credit losses	268	204	31	547	434	26
Non-interest expense	1,059	1,006	5	2,101	1,996	5
Income from continuing operations before income taxes	434	404	7	825	795	4
Income tax provision	158	147	7	301	289	4
Income from continuing operations, net of tax	\$276	\$257	7	\$524	\$506	4
Selected performance metrics:						
Average loans held for investment: ⁽¹⁾						
Auto	\$50,803	\$43,605	17	\$49,743	\$42,784	16
Home loan	20,203	23,835	(15)	20,674	24,308	(15)
Retail banking	3,463	3,548	(2)	3,486	3,550	(2)
Total consumer banking	\$74,469	\$70,988	5	\$73,903	\$70,642	5
Average yield on loans held for investment ⁽²⁾	6.56%	6.28%	28 bps	6.52%	6.23%	29 bps
Average deposits	\$186,989	\$176,808	6%	\$185,471	\$175,531	6%
Average deposits interest rate	0.59%	0.55%	4 bps	0.58%	0.54%	4 bps
Net charge-offs	\$232	\$146	59%	\$450	\$329	37%
Net charge-off rate	1.25%	0.83%	42 bps	1.22%	0.93%	29 bps
Net charge-off rate (excluding PCI loans) ⁽³⁾	1.50	1.09	41	1.48	1.24	24
Auto loan originations	\$7,453	\$6,529	14%	\$14,478	\$12,373	17%
(Dollars in millions, except as noted)	June 30, 2017	December 31, 2016	Change			
Selected period-end data:						
Loans held for investment: ⁽¹⁾						
Auto	\$51,765	\$47,916	8%			
Home loan	19,724	21,584	(9)			
Retail banking	3,484	3,554	(2)			
Total consumer banking	\$74,973	\$73,054	3			
30+ day performing delinquency rate	3.79%	4.10%	(31)bps			
30+ day performing delinquency rate (excluding PCI loans) ⁽³⁾	4.54	5.12	(58)			
30+ day delinquency rate	4.33	4.67	(34)			
30+ day delinquency rate (excluding PCI loans) ⁽³⁾	5.18	5.82	(64)			
Nonperforming loan rate	0.75	0.72	3			
Nonperforming loan rate (excluding PCI loans) ⁽³⁾	0.90	0.90	—			
Nonperforming asset rate ⁽⁴⁾	0.96	1.09	(13)			
Nonperforming asset rate (excluding PCI loans) ⁽³⁾⁽⁴⁾	1.15	1.36	(21)			
Allowance for loan and lease losses	\$1,199	\$1,102	9%			
Allowance coverage ratio ⁽⁵⁾⁽⁶⁾	1.60	% 1.51%	9 bps			
Deposits	\$186,607	\$181,917	3%			

Loans serviced for others ⁽⁷⁾	8,557	8,258	4
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(1) Average consumer banking loans held for investment includes purchased credit-impaired loans (“PCI loans”) of \$12.8 billion and \$16.9 billion in the second quarter of 2017 and 2016, respectively, and \$13.3 billion and \$17.5 billion in the first six months of 2017 and 2016, respectively. Period-end consumer banking loans held for investment includes PCI loans with carrying values of \$12.4 billion and \$14.5 billion as of June 30, 2017 and December 31, 2016, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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- Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.
- (2) See “MD&A—Credit Risk Profile” and “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for additional information on the impact of PCI loans on our credit quality metrics.
- (3) Nonperforming assets consist of nonperforming loans, real estate owned (“REO”) and other foreclosed assets. The total nonperforming asset rate is calculated based on total nonperforming assets divided by the combined period-end total loans held for investment, REO and other foreclosed assets.
- (4) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.
- (5) Excluding the impact of the PCI home loan amounts in footnote 1 above, the allowance coverage ratios for our home loan portfolio and total consumer banking were 0.40% and 1.87%, respectively, as of June 30, 2017, compared to 0.51% and 1.83%, respectively, as of December 31, 2016.
- (6) Loans serviced for others represents loans serviced for third parties related to our consumer home loan lending business.
- (7) Key factors affecting the results of our Consumer Banking business for the second quarter and first six months of 2017 compared to the second quarter and first six months of 2016, and changes in financial condition and credit performance between June 30, 2017 and December 31, 2016 include the following:
- Net Interest Income: Net interest income increased by \$139 million to \$1.6 billion in the second quarter of 2017 and increased by \$236 million to \$3.1 billion in the first six months of 2017 primarily driven by growth in our auto loan portfolio and higher deposit volumes in our retail banking business.
- Consumer Banking loan yield increased by 28 basis points to 6.6% and increased by 29 basis points to 6.5% in the second quarter and first six months of 2017, respectively. The increases were primarily driven by changes in the product mix in Consumer Banking as a result of run-off of our acquired home loan portfolio and growth in our auto loan portfolio, partially offset by margin compression in our auto loan portfolio.
- Average yield on auto loans decreased by 16 basis points to 7.5% in both the second quarter and first six months of 2017, primarily attributable to margin compression and changes in the product mix in our auto loan portfolio.
- Average yield on our home loan portfolio increased by 46 basis points to 4.3% and increased by 49 basis points to 4.3% in the second quarter and first six months of 2017, respectively, primarily as a result of higher yield on our acquired home loan portfolio.
- Non-Interest Income: Non-interest income was substantially flat at \$183 million in the second quarter of 2017 and \$378 million in the first six months of 2017.
- Provision for Credit Losses: The provision for credit losses increased by \$64 million to \$268 million in the second quarter of 2017 and increased by \$113 million to \$547 million in the first six months of 2017 primarily driven by higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices.
- Non-Interest Expense: Non-interest expense increased by \$53 million to \$1.1 billion in the second quarter of 2017 and increased by \$105 million to \$2.1 billion in the first six months of 2017 primarily due to higher operating expenses driven by growth in our auto loan portfolio and continued investment in technology.
- Loans Held for Investment: Period-end loans held for investment increased by \$1.9 billion to \$75.0 billion as of June 30, 2017 from December 31, 2016, and average loans held for investment increased by \$3.5 billion to \$74.5 billion in the second quarter of 2017 compared to the second quarter of 2016 and increased by \$3.3 billion to \$73.9 billion in the first six months of 2017 compared to the first six months of 2016. These increases were due to growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.
- Deposits: Period-end deposits increased by \$4.7 billion to \$186.6 billion as of June 30, 2017 from December 31, 2016.

Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 42 basis points to 1.25% in the second quarter of 2017 compared to the second quarter of 2016, and increased by 29 basis points to 1.22% in the first six months of 2017 compared to the first six months of 2016. The increases were driven by:
higher losses in our auto loan portfolio due to recent growth and declines in used car auction prices, as well as changes in our charge-off practices for certain loans; and

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a greater portion of auto loans in our total consumer banking loan portfolio, which generally have higher charge-off rates than other products within this portfolio.

The 30+ day delinquency rate decreased by 34 basis points to 4.33% as of June 30, 2017 from December 31, 2016 primarily attributable to seasonally lower auto delinquency inventories.

Commercial Banking Business

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

Our Commercial Banking business generated net income from continuing operations of \$146 million and \$359 million in the second quarter and first six months of 2017, respectively, and \$138 million and \$205 million in the second quarter and first six months of 2016, respectively.

Table 12 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

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Table 12: Commercial Banking Business Results

(Dollars in millions, except as noted)	Three Months Ended June 30,			Six Months Ended June 30,		
	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	\$569	\$559	2%	\$1,135	\$1,096	4%
Non-interest income	183	129	42	341	247	38
Total net revenue ⁽¹⁾	752	688	9	1,476	1,343	10
Provision (benefit) for credit losses ⁽²⁾	140	128	9	138	356	(61)
Non-interest expense	381	343	11	772	665	16
Income from continuing operations before income taxes	231	217	6	566	322	76
Income tax provision	85	79	8	207	117	77
Income from continuing operations, net of tax	\$146	\$138	6	\$359	\$205	75
Selected performance metrics:						
Average loans held for investment: ⁽³⁾						
Commercial and multifamily real estate	\$27,401	\$25,661	7	\$26,997	\$25,338	7
Commercial and industrial	39,815	38,713	3	39,845	38,237	4
Total commercial lending	67,216	64,374	4	66,842	63,575	5
Small-ticket commercial real estate	453	564	(20)	463	581	(20)
Total commercial banking	\$67,669	\$64,938	4	\$67,305	\$64,156	5
Average yield on loans held for investment ⁽¹⁾⁽⁴⁾	3.81%	3.45 %	36 bps	3.73%	3.42%	31 bps
Average deposits	\$34,263	\$33,764	1%	\$34,241	\$33,920	1%
Average deposits interest rate	0.36%	0.27%	9 bps	0.34%	0.27%	7 bps
Net charge-offs	\$136	\$60	127%	\$159	\$106	50%
Net charge-off rate	0.80%	0.37%	43 bps	0.47%	0.33%	14 bps
 (Dollars in millions, except as noted)						
	June 30,	December	Change			
	2017	31, 2016				
Selected period-end data:						
Loans held for investment: ⁽³⁾						
Commercial and multifamily real estate	\$27,428	\$26,609	3%			
Commercial and industrial	39,801	39,824	—			
Total commercial lending	67,229	66,433	1			
Small-ticket commercial real estate	443	483	(8)			
Total commercial banking	\$67,672	\$66,916	1			
Nonperforming loan rate	1.01%	1.53%	(52)bps			
Nonperforming asset rate ⁽⁵⁾	1.04	1.54	(50)			
Allowance for loan and lease losses ⁽²⁾	\$758	\$793	(4)%			
Allowance coverage ratio ⁽⁶⁾	1.12 %	1.19%	(7)bps			
Deposits	\$33,153	\$33,866	(2)%			
Loans serviced for others ⁽⁷⁾	24,484	22,321	10			

Some of our tax-related commercial investments generate tax-exempt income or tax credits. Accordingly, we make

(1) certain reclassifications within our Commercial Banking business results to present revenues and yields on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory tax rate of 35% with offsetting reclassifications to the Other category.

(2) The provision for losses on unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. Our reserve for unfunded lending commitments totaled \$132 million and \$129 million as of June 30, 2017 and December 31, 2016, respectively.

(3) Average commercial banking loans held for investment includes PCI loans of \$548 million and \$842 million in the second quarter of 2017 and 2016, respectively, and \$577 million and \$884 million in the first six months of 2017 and 2016, respectively. Period-end commercial banking loans held for investment includes PCI loans with carrying values of \$524 million and \$613 million as of June 30, 2017 and December 31, 2016, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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

(5) Nonperforming assets consist of nonperforming loans, real estate owned (“REO”) and other foreclosed assets. The total nonperforming asset rate is calculated based on total nonperforming assets divided by the combined period-end total loans held for investment, REO and other foreclosed assets.

(6) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

(7) Loans serviced for others represents loans serviced for third parties related to our multifamily finance business. Key factors affecting the results of our Commercial Banking business for the second quarter and first six months of 2017 compared to the second quarter and first six months of 2016, and changes in financial condition and credit performance between June 30, 2017 and December 31, 2016 include the following:

Net Interest Income: Net interest income increased by \$10 million to \$569 million in the second quarter of 2017 and increased by \$39 million to \$1.1 billion in the first six months of 2017 primarily driven by higher deposit margins as a result of higher interest rates and loan growth.

Non-Interest Income: Non-interest income increased by \$54 million to \$183 million in the second quarter of 2017 and increased by \$94 million to \$341 million in the first six months of 2017 primarily driven by increased activity across a broad range of products and services provided to our commercial customers.

Provision for Credit Losses: The provision for credit losses increased by \$12 million to \$140 million in the second quarter of 2017 primarily driven by higher charge-offs as a result of continued adverse industry conditions impacting certain segments of our oil and gas lending portfolio and our taxi medallion lending portfolio, largely offset by a smaller allowance build in the second quarter of 2017.

The provision for credit losses decreased by \$218 million to \$138 million in the first six months of 2017 primarily due to an allowance release in the first six months of 2017 compared to a build in the first six months of 2016, primarily driven by charge-offs in our taxi medallion lending portfolio and certain segments of our oil and gas lending portfolio, which continue to be adversely impacted even as overall industry conditions are generally stabilizing.

Non-Interest Expense: Non-interest expense increased by \$38 million to \$381 million in the second quarter of 2017 and increased by \$107 million to \$772 million in the first six months of 2017 primarily driven by higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure.

Loans Held for Investment: Period-end loans held for investment increased by \$756 million to \$67.7 billion as of June 30, 2017 from December 31, 2016, and average loans held for investment increased by \$2.7 billion to \$67.7 billion in the second quarter of 2017 compared to the second quarter of 2016 and increased by \$3.1 billion to \$67.3 billion in the first six months of 2017 compared to the first six months of 2016. These increases were driven by growth across our commercial loan portfolios.

Deposits: Period-end deposits decreased by \$713 million to \$33.2 billion as of June 30, 2017 from December 31, 2016.

Net Charge-Off and Nonperforming Metrics: The net charge-off rate increased by 43 basis points to 0.80% in the second quarter of 2017 compared to the second quarter of 2016 and increased by 14 basis points to 0.47% in the first six months of 2017 compared to the first six months of 2016 driven by higher charge-offs in our oil and gas and taxi medallion lending portfolios. The nonperforming loan rate decreased by 52 basis points to 1.01% as of June 30, 2017 from December 31, 2016, primarily due to improved credit risk ratings and charge-offs in our oil and gas portfolio.

Other Category

Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio, asset/liability management and certain capital management activities. Other also includes:

foreign exchange-rate fluctuations on foreign currency-denominated balances;

unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges;

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a portion of the net benefit (provision) for representation and warranty losses related to continuing operations; and offsets related to certain line-item reclassifications.

Table 13 summarizes the financial results of our Other category for the periods indicated.

Table 13: Other Category Results

(Dollars in millions)	Three Months			Six Months Ended		
	Ended June 30,	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	\$32	\$50	(36)%	\$77	\$116	(34)%
Non-interest income	(10)	(2)	**	(40)	6	**
Total net revenue ⁽¹⁾	22	48	(54)	37	122	(70)
Provision (benefit) for credit losses	(5)	(1)	**	(7)	(3)	133
Non-interest expense	56	63	(11)	128	111	15
Income from continuing operations before income taxes	(29)	(14)	107	(84)	14	**
Income tax provision (benefit)	(101)	(78)	29	(219)	(143)	53
Income from continuing operations, net of tax	\$72	\$64	13	\$135	\$157	(14)

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

**Change is not meaningful.

Net income from continuing operations recorded in the Other category was \$72 million and \$135 million in the second quarter and first six months of 2017, respectively, compared to \$64 million and \$157 million in the second quarter and first six months of 2016, respectively.

The increase in the second quarter of 2017 was primarily driven by an increased income tax benefit as a result of increased tax-exempt income, tax credits and discrete tax benefits. This increase was partially offset by lower net interest income due to higher offsets from tax credits in our Commercial Banking business.

The decrease in net income in the first six months of 2017 was primarily driven by:

• lower non-interest income primarily due to the absence of rate-driven hedge ineffectiveness gains in the first six months of 2016, as well as offsets from tax credits in our Commercial Banking business;

• lower net interest income primarily driven by higher interest expense due to higher interest rates and growth in our interest-bearing liabilities, as well as offsets from tax credits in our Commercial Banking business; and

• higher non-interest expense primarily due to continued investments in technology and infrastructure.

These decreases were partially offset by:

• an increased income tax benefit as a result of lower income before taxes, increased tax-exempt income and tax credits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses on the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K.

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

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

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions. Management has discussed our critical accounting policies and estimates with the Audit Committee of the Board of Directors. There have been no changes to our critical accounting policies and estimates since the 2016 Form 10-K.

We provide additional information on our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2016 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted in 2017, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these changes in accounting standards.

CAPITAL MANAGEMENT

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

Capital Standards and Prompt Corrective Action

We are subject to capital adequacy standards adopted by the Federal Reserve, Office of the Comptroller of the Currency (“OCC”) and Federal Deposit Insurance Corporation (“FDIC”) (collectively, the “Federal Banking Agencies”), including the capital rules that implemented the Basel III capital framework (“Basel III Capital Rule”) developed by the Basel Committee on Banking Supervision (“Basel Committee”). Moreover, the Banks, as insured depository institutions, are subject to prompt corrective action (“PCA”) capital regulations.

In July 2013, the Federal Banking Agencies adopted the Basel III Capital Rule, which, in addition to implementing the Basel III capital framework, also implemented certain Dodd-Frank Act and other capital provisions, and updated the PCA capital framework to reflect the new regulatory capital minimums. The Basel III Capital Rule amended both the Basel I and Basel II Advanced Approaches frameworks, established a new common equity Tier 1 capital requirement and set higher minimum capital ratio requirements. We refer to the amended Basel I framework as the “Basel III Standardized Approach,” and the amended Advanced Approaches framework as the “Basel III Advanced Approaches.” At the end of 2012, we met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, we have undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. We entered parallel run under Advanced Approaches on January 1, 2015, during which we are required to calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though we continue to use the Standardized Approach for purposes of meeting regulatory capital requirements.

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The Basel Committee has proposed, but has not finalized, changes to the Basel III capital framework. There is uncertainty around any final changes that the Basel Committee might adopt, which of those changes thereafter may be adopted in the United States, and how those changes may impact the Basel III Standardized Approach and the Basel III Advanced Approaches.

The Market Risk Rule supplements both the Basel III Standardized Approach and the Basel III Advanced Approaches by requiring institutions subject to the Market Risk Rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to the lesser of (i) 10% or more of total assets or (ii) \$1 billion or more. See “MD&A—Market Risk Profile” below for additional information. We began reporting risk-based capital ratios including market risk-weighted assets for the Company and CONA pursuant to the Market Risk Rule for positions covered by such rule in the third quarter of 2016. This change did not have a material impact on the risk-based capital ratios of these two entities. As of June 30, 2017, COBNA is not subject to the Market Risk Rule.

For additional information about the capital adequacy guidelines we are subject to, see “Part I—Item 1. Business—Supervision and Regulation” in our 2016 Form 10-K.

Table 14 provides a comparison of our regulatory capital ratios under the Basel III Standardized Approach subject to transition provisions, the regulatory minimum capital adequacy ratios and the PCA well-capitalized level for each ratio, where applicable, as of June 30, 2017 and December 31, 2016.

Table 14: Capital Ratios under Basel III⁽¹⁾⁽²⁾

	June 30, 2017			December 31, 2016		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital ⁽³⁾	10.7	% 4.5%	N/A	10.1%	4.5%	N/A
Tier 1 capital ⁽⁴⁾	12.2	6.0	6.0%	11.6	6.0	6.0%
Total capital ⁽⁵⁾	14.9	8.0	10.0	14.3	8.0	10.0
Tier 1 leverage ⁽⁶⁾	10.3	4.0	N/A	9.9	4.0	N/A
Supplementary leverage ⁽⁷⁾	8.9	N/A	N/A	8.6	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital ⁽³⁾	13.2%	4.5%	6.5%	12.0%	4.5%	6.5%
Tier 1 capital ⁽⁴⁾	13.2	6.0	8.0	12.0	6.0	8.0
Total capital ⁽⁵⁾	16.0	8.0	10.0	14.8	8.0	10.0
Tier 1 leverage ⁽⁶⁾	11.5	4.0	5.0	10.8	4.0	5.0
Supplementary leverage ⁽⁷⁾	9.5	N/A	N/A	8.9	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital ⁽³⁾	12.1%	4.5%	6.5%	10.6%	4.5%	6.5%
Tier 1 capital ⁽⁴⁾	12.1	6.0	8.0	10.6	6.0	8.0
Total capital ⁽⁵⁾	13.3	8.0	10.0	11.8	8.0	10.0
Tier 1 leverage ⁽⁶⁾	8.9	4.0	5.0	7.7	4.0	5.0
Supplementary leverage ⁽⁷⁾	7.9	N/A	N/A	6.9	N/A	N/A

Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, such as the inclusion of the unrealized gains and losses on securities available for sale

(1) included in accumulated other comprehensive income (“AOCI”) and adjustments related to intangible assets other than goodwill. The inclusion of AOCI and the adjustments related to intangible assets are phased-in at 60% for 2016, 80% for 2017 and 100% for 2018.

(2)

Ratios as of June 30, 2017 are preliminary. As we continue to validate our data, the calculations are subject to change until we file our June 30, 2017 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

- (3) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.
- (4) Tier 1 capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
- (5) Total capital ratio is a regulatory capital measure calculated based on total capital divided by risk-weighted assets.
- (6) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.
- (7) Supplementary leverage ratio (“SLR”) is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

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In addition to the above statutory capital ratios, we also disclose a non-GAAP TCE ratio in “MD&A—Summary of Selected Financial Data.” This capital measure is not necessarily comparable to similarly-titled capital measures reported by other companies. We provide information on the calculation of this ratio in “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures.”

The Company exceeded the minimum capital requirements and each of the Banks exceeded the minimum regulatory requirements and were well capitalized under PCA requirements as of both June 30, 2017 and December 31, 2016. The Basel III Capital Rule requires banks to maintain a capital conservation buffer of 2.5% above the regulatory minimum ratios composed of common equity Tier 1 capital. The capital conservation buffer is being phased in over a transition period that commenced on January 1, 2016 and will be fully phased in on January 1, 2019. The capital conservation buffer is 1.25% in 2017.

For banks subject to the Advanced Approaches, including the Company and the Banks, the capital conservation buffer may be supplemented by an incremental countercyclical capital buffer of up to 2.5% (once fully phased-in) composed of common equity Tier 1 capital and set at the discretion of the Federal Banking Agencies. As of June 30, 2017, the countercyclical capital buffer is zero percent in the United States. A determination to increase the countercyclical capital buffer generally would be effective twelve months after the announcement of such an increase, unless the Federal Banking Agencies set an earlier effective date. The countercyclical capital buffer, if set to an amount greater than zero percent, would be subject to the same transition period as the capital conservation buffer, which commenced on January 1, 2016.

For 2017, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for common equity Tier 1 capital, Tier 1 capital and total capital ratios is 5.75%, 7.25% and 9.25%, respectively, for the Company and the Banks. A common equity Tier 1 capital ratio, Tier 1 capital ratio, or total capital ratio below the applicable regulatory minimum ratio plus the applicable capital conservation buffer and the applicable countercyclical buffer (if set to an amount greater than zero percent) might restrict a bank’s ability to distribute capital and make discretionary bonus payments. As of June 30, 2017, the Company and each of the Banks are all above the applicable combined thresholds.

Additionally, banks designated as global systemically important banks (“G-SIBs”) are subject to an additional regulatory capital surcharge above the combined capital conservation and countercyclical capital buffers established by the Basel III Capital Rule. We are currently not designated as a G-SIB and therefore not subject to this surcharge.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of June 30, 2017, subject to applicable transition provisions, to our estimated fully phased-in common equity Tier 1 capital and risk-weighted assets, as it applies for Advanced Approaches banks such as ourselves that have not yet exited parallel run. Our estimated common equity Tier 1 capital, risk-weighted assets and common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach are non-GAAP financial measures that we believe provide useful information in evaluating compliance with regulatory capital requirements that are not effective yet. They are calculated 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. As we continue to engage with our regulators, there could be further changes to the calculation.

Table 15: Regulatory Capital Reconciliations between Basel III Transition to Fully Phased-in⁽¹⁾

(Dollars in millions)	June 30, 2017
Common equity Tier 1 capital under Basel III Standardized Approach	\$ 30,226
Adjustments related to AOCI ⁽²⁾	(90)
Adjustments related to intangibles ⁽²⁾	(105)
Other adjustments ⁽²⁾	(1)
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized Approach	\$ 30,030
Risk-weighted assets under Basel III Standardized Approach ⁽³⁾	\$ 283,231
Adjustments for fully phased-in Basel III Standardized Approach ⁽⁴⁾	1,343

Estimated risk-weighted assets under fully phased-in Basel III Standardized Approach	\$284,574
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach ⁽⁵⁾	10.6%

(1) Estimated common equity Tier 1 capital, risk-weighted assets, and common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach are non-GAAP financial measures.

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- (2) Assumes adjustments are fully phased-in.
- (3) Includes credit and market risk-weighted assets.
Adjustments include higher risk weights for items that are included in capital based on the threshold deduction
- (4) approach, such as mortgage servicing assets and deferred tax assets. The adjustments also include removal of risk weights for items that are deducted from common equity Tier 1 capital.
Estimated common equity Tier 1 capital ratio is calculated by dividing estimated common equity Tier 1 capital by
- (5) estimated risk-weighted assets, which are both calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks that have not yet exited parallel run.

Under the Basel III Capital Rule, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be determined by the greater of our risk-weighted assets under the Basel III Standardized Approach and the Basel III Advanced Approaches. See “Part I—Item 1. Business—Supervision and Regulation” in our 2016 Form 10-K for additional information. Once we exit parallel run, based on clarification of the Basel III Capital Rule from our regulators, any amount by which our expected credit losses exceed eligible credit reserves, as each term is defined under the Basel III Capital Rule, will be deducted from our Basel III Standardized Approach numerator, subject to transition provisions. Inclusive of this impact, based on current capital rules and our business mix, we estimate that our Basel III Advanced Approaches ratios will be lower than our Basel III Standardized Approach ratios. However, there is uncertainty whether this will remain the case in light of potential changes to the United States capital rules.

Capital Planning and Regulatory Stress Testing

On June 28, 2017, the Federal Reserve completed its 2017 Comprehensive Capital Analysis and Review (“CCAR”) and did not object to our proposed capital plan. As a condition to not objecting to the capital plan, the Federal Reserve has required us to submit a revised capital plan by December 28, 2017 to address certain weaknesses it identified in our capital planning process. If the Federal Reserve objects to the resubmitted capital plan, it may restrict subsequent capital distributions. For the description of the regulatory capital planning rules we are subject to, see “Part I—Item 1. Business—Supervision and Regulation” in our 2016 Form 10-K. During the intervening period we are allowed to proceed with the actions in our capital plan. The Board of Directors authorized the repurchase of up to \$1.85 billion of shares of our common stock from the third quarter of 2017 through the second quarter of 2018, in addition to share repurchases related to employee compensation. The Board of Directors also authorized the quarterly dividend on our common stock of \$0.40 per share.

Dividend Policy and Stock Purchases

On July 27, 2017, the Board of Directors of the Company declared a quarterly common stock dividend of \$0.40 per share. The dividend is payable on August 17, 2017 to stockholders of record at the close of the business on August 7, 2017. The Board of Directors also approved quarterly dividends on the Company’s 6.00% fixed-rate non-cumulative Series B perpetual preferred stock, the Company’s 6.25% fixed-rate non-cumulative Series C perpetual preferred stock, the Company’s 6.70% fixed-rate non-cumulative Series D perpetual preferred stock, the Company’s 6.20% fixed-rate non-cumulative Series F perpetual preferred stock, the Company’s 5.20% fixed-rate non-cumulative Series G perpetual preferred stock and the Company’s 6.00% fixed-rate non-cumulative Series H perpetual preferred stock. These dividends are payable on September 1, 2017 to stockholders of record at the close of business on August 17, 2017. Based on these declarations, the Company will pay approximately \$195 million in common equity dividends and approximately \$52 million in total preferred dividends in the third quarter of 2017. Under the terms of the Company’s outstanding preferred stock, the Company’s ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the preferred stock for the immediately preceding dividend period. We paid common stock dividends of \$0.40 per share in the second quarter of 2017. The following table summarizes the dividends paid per share on our various preferred stock series in the first six months of 2017.

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Table 16: Preferred Stock Dividends Paid Per Share

Series	Description	Issuance Date	Per Annum Dividend Rate	Dividend Frequency	2017	
					Q2	Q1
Series B	6.00% Non-Cumulative	August 20, 2012	6.00%	Quarterly	\$15.00	\$15.00
Series C	6.25% Non-Cumulative	June 12, 2014	6.25	Quarterly	15.63	15.63
Series D	6.70% Non-Cumulative	October 31, 2014	6.70	Quarterly	16.75	16.75
Series E	Fixed-to-Floating Rate Non-Cumulative	May 14, 2015	5.55% through 5/31/2020; 3-mo. LIBOR+ 380 bps thereafter	Semi-Annually through 5/31/2020; Quarterly thereafter	27.75	—
Series F	6.20% Non-Cumulative	August 24, 2015	6.20	Quarterly	15.50	15.50
Series G	5.20% Non-Cumulative	July 29, 2016	5.20	Quarterly	13.00	13.00
Series H	6.00% Non-Cumulative	November 29, 2016	6.00	Quarterly	15.00	15.33

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company (“BHC”), our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our BHC. As of June 30, 2017, funds available for dividend payments from COBNA and CONA were \$3.9 billion and \$1.5 billion, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

Consistent with our 2016 Stock Repurchase Program, our Board of Directors authorized the repurchase of up to \$2.5 billion of shares of common stock beginning in the third quarter of 2016 through the end of the second quarter of 2017. Through the end of the second quarter of 2017, we repurchased approximately \$2.2 billion of shares of common stock as part of the 2016 Stock Repurchase Program.

The timing and exact amount of any future common stock repurchases will depend on various factors, including market conditions, opportunities for growth, our capital position and the amount of retained earnings. Our stock repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. For additional information on dividends and stock repurchases, see “Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfer of Funds” in our 2016 Form 10-K.

RISK MANAGEMENT**Risk Framework**

We use a risk framework to provide an overall enterprise-wide approach for effectively managing risk. We execute against our risk framework with the “Three Lines of Defense” risk management model to demonstrate and structure the roles, responsibilities and accountabilities in the organization for taking and managing risk.

The “First Line of Defense” is comprised of the business areas that through their day-to-day business activities take risk on our behalf. As the business owner, the first line is responsible for identifying, assessing, managing and controlling that risk. This principle places ultimate accountability for the management of risks and ownership of risk decisions with the CEO and business heads. The “Second Line of Defense” provides oversight of first line risk taking and management, and is primarily comprised of our Risk Management organization. The second line assists in determining risk appetite and the strategies, policies and structures for managing risks. The second line is both an

“expert advisor” to the first line and an “effective challenger” of first line risk activities. The “Third Line of Defense” is comprised of our Internal Audit and Credit Review functions. The third line provides

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independent and objective assurance to senior management and to the Board of Directors that first and second line risk management and internal control systems and its governance processes are well-designed and working as intended. The risk framework is also used to guide design of risk programs and performance of risk activity within each risk category and across the entire enterprise.

There are eight elements that comprise the risk framework:

1 Establish Governance Processes, Accountabilities and Risk Appetites

2 Identify and Assess Risks and Ownership

3 Develop and Operate Controls, Monitoring and Mitigation Plans

4 Test and Detect Control Gaps and Perform Corrective Action

5 Escalate Key Risks and Gaps to Executive Management and, when Appropriate, the Board of Directors

6 Calculate and Allocate Capital in Alignment with Risk Management and Measurement Processes (including Stress Testing)

7 Support with the Right Culture, Talent and Skills

8 Enabled by the Right Data, Infrastructure and Programs

We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under “MD&A—Risk Management” in our 2016 Form 10-K.

CREDIT RISK PROFILE

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

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

Loans Held for Investment Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial lending products. For information on our lending policies and procedures, including our underwriting criteria for our primary loan products, see “MD&A—Credit Risk Profile” in our 2016 Form 10-K.

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including PCI loans, by portfolio segment as of June 30, 2017 and December 31, 2016. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled \$777 million and \$1.0 billion as of June 30, 2017 and December 31, 2016, respectively.

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Table 17: Loans Held for Investment Portfolio Composition

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Loans	% of Total	Loans	% of Total
Credit Card:				
Domestic credit card	\$92,866	38.0%	\$97,120	39.6%
International card businesses	8,724	3.6	8,432	3.4
Total credit card	101,590	41.6	105,552	43.0
Consumer Banking:				
Auto	51,765	21.2	47,916	19.5
Home loan	19,724	8.1	21,584	8.8
Retail banking	3,484	1.4	3,554	1.4
Total consumer banking	74,973	30.7	73,054	29.7
Commercial Banking:				
Commercial and multifamily real estate	27,428	11.2	26,609	10.9
Commercial and industrial	39,801	16.3	39,824	16.2
Total commercial lending	67,229	27.5	66,433	27.1
Small-ticket commercial real estate	443	0.2	483	0.2
Total commercial banking	67,672	27.7	66,916	27.3
Other loans	67	—	64	—
Total loans held for investment	\$244,302	100.0%	\$245,586	100.0%

Commercial Loans

For purposes of portfolio risk management, we aggregate our commercial loan portfolio according to market segmentation primarily based on standard industry codes. Table 18 summarizes our commercial loans held for investment portfolio by industry classification as of June 30, 2017 and December 31, 2016.

Table 18: Commercial Loans by Industry⁽¹⁾

(Percentage of portfolio)	June 30, 2017	December 31, 2016
Real estate	41%	40%
Healthcare	14	14
Finance and insurance	12	13
Business services	5	5
Educational services	4	4
Public administration	4	4
Oil and gas ⁽²⁾	4	4
Retail trade	4	4
Construction and land	3	3
Transportation ⁽³⁾	2	2
Other	7	7
Total	100%	100%

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

In addition to loans outstanding, we also have unfunded lending commitments of approximately \$3.1 billion and

(2) \$2.9 billion to oil and gas companies as of June 30, 2017 and December 31, 2016, respectively. For information on our total unfunded lending commitments see “Note 14—Commitments, Contingencies, Guarantees and Others.”

(3) Includes our taxi medallion lending portfolio among other portfolios.

Table of Contents**Purchased Credit-Impaired Loans**

Our portfolio of loans includes certain of our consumer and commercial loans acquired in business acquisitions that were recorded at fair value at acquisition and subsequently accounted for using the guidance for accounting for PCI loans and debt securities, which is based upon expected cash flows. These PCI loans totaled \$12.9 billion as of June 30, 2017 compared to \$15.1 billion as of December 31, 2016. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized in interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference, or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. We regularly update our estimate of expected principal and interest to be collected from these loans and evaluate the results for each accounting pool that was established at acquisition based on loans with common risk characteristics. Probable decreases in expected cash flows would trigger the recognition of an allowance for loan and lease losses through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses established subsequent to acquisition, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for additional information on PCI loans that are accounted for based on expected cash flows.

Home Loans

The majority of our home loan portfolio are PCI loans acquired from the ING Direct and CCB acquisitions, representing 63% and 67% of our total home loan portfolio as of June 30, 2017 and December 31, 2016, respectively. See “MD&A—Glossary and Acronyms” for the definition of “ING Direct acquisition” and “CCB.” The expected cash flows for the PCI loans in our home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield. Charge-offs on these loans are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, PCI loans are not classified as delinquent or nonperforming, as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans.

Table 19 presents the break out of our total home loan portfolio by lien priority for PCI loans and remaining loans.

Table 19: Home Loans—Risk Profile by Lien Priority

June 30, 2017						
(Dollars in millions)	Loans		PCI Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1 st lien	\$6,411	32.5%	\$12,102	61.4%	\$18,513	93.9%
2 nd lien	965	4.9	246	1.2	1,211	6.1
Total	\$7,376	37.4%	\$12,348	62.6%	\$19,724	100.0%
December 31, 2016						
(Dollars in millions)	Loans		PCI Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1 st lien	\$6,182	28.7%	\$14,159	65.5%	\$20,341	94.2%

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2 nd lien	974	4.5	269	1.3	1,243	5.8
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” in our 2016 Form 10-K and in this Report 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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Table 20 provides a sensitivity analysis of PCI loans in our home loan portfolio as of June 30, 2017. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact the results that are presented below.

Table 20: Sensitivity Analysis—PCI Home Loans⁽¹⁾

(Dollars in millions)	Estimated	
	June 30, 2017	Impact Increase (Decrease)
Expected cash flows	\$14,862	\$ (53)
Accretable yield	2,544	53
Allowance for loan and lease losses	30	106

Changes in the accretable yield would be recognized in interest income in our consolidated statements of income⁽¹⁾ over the life of the loans. Changes in the allowance for loan and lease losses would be recognized immediately in the provision for credit losses in our consolidated statements of income.

Credit Risk Measurement

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

The following table provides details on the credit scores of our domestic credit card and auto loans held for investment portfolios as of June 30, 2017, December 31, 2016 and June 30, 2016.

Table 21: Credit Score Distribution

(Percentage of portfolio)	June 30, 2017	December 31, 2016	June 30, 2016
Domestic credit card—Refreshed FICO scores ⁽²⁾ :			
Greater than 660	64%	64%	65%
660 or below	36	36	35
Total	100%	100%	100%
Auto—At origination FICO scores ⁽²⁾ :			
Greater than 660	51%	52%	51%
621 - 660	18	17	17
620 or below	31	31	32
Total	100%	100%	100%

(1) 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) 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.

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

See “Note 4—Loans” in this Report for additional credit quality information. Also, see “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K and in this Report for information on our accounting policies for delinquent and nonperforming loans, net charge-offs and TDRs for each of our loan categories.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the customer’s due date, measured at the reporting date. Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due but are currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for domestic credit card loans, as we continue to classify loans as performing until the account is charged off, typically when the account is 180 days past due. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories. We provide additional information on our credit quality metrics above under “MD&A—Business Segment Financial Performance.”

Table 22 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, including PCI loans, by portfolio segment, as of June 30, 2017 and December 31, 2016.

Table 22: 30+ Day Delinquencies

(Dollars in millions)	June 30, 2017				December 31, 2016			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Credit Card:								
Domestic credit card	\$3,373	3.63%	\$3,373	3.63%	\$3,839	3.95%	\$3,839	3.95%
International card businesses	286	3.28	309	3.54	283	3.36	317	3.76
Total credit card	3,659	3.60	3,682	3.62	4,122	3.91	4,156	3.94
Consumer Banking:								
Auto	2,795	5.40	3,032	5.86	2,931	6.12	3,154	6.58
Home loan ⁽²⁾	29	0.14	173	0.87	43	0.20	205	0.95
Retail banking	19	0.54	40	1.16	25	0.70	49	1.39
Total consumer banking ⁽²⁾	2,843	3.79	3,245	4.33	2,999	4.10	3,408	4.67
Commercial Banking:								
Commercial and multifamily real estate	36	0.13	68	0.25	20	0.07	45	0.17
Commercial and industrial	39	0.10	303	0.76	36	0.09	408	1.02
Total commercial lending	75	0.11	371	0.55	56	0.08	453	0.68
Small-ticket commercial real estate	1	0.17	9	2.04	6	1.31	10	2.14
Total commercial banking	76	0.11	380	0.56	62	0.09	463	0.69
Other loans	2	3.58	8	12.95	2	3.66	8	12.90
Total	\$6,580	2.69	\$7,315	2.99	\$7,185	2.93	\$8,035	3.27

The 30+ day performing and 30+ day delinquency rates are calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category, including PCI loans as applicable.

⁽²⁾Excluding the impact of PCI loans, the 30+ day performing delinquency rate for our home loan and total consumer banking portfolios was 0.38% and 4.54%, respectively, as of June 30, 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 2.34% and 5.18%, respectively, as of June 30, 2017, and 2.86% and 5.82%, respectively, as of December 31, 2016.

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Table 23 presents an aging and geography of 30+ day delinquent loans as of June 30, 2017 and December 31, 2016.

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

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Delinquency status:				
30 – 59 days	\$3,355	1.37%	\$3,466	1.41%
60 – 89 days	1,659	0.68	1,920	0.78
> 90 days	2,301	0.94	2,649	1.08
Total	\$7,315	2.99%	\$8,035	3.27%
Geographic region:				
Domestic	\$7,006	2.86%	\$7,718	3.14%
International	309	0.13	317	0.13
Total	\$7,315	2.99%	\$8,035	3.27%
Total loans held for investment	\$244,302	100.00%	\$245,586	100.00%

(1) Delinquency rates are calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total period-end loans held for investment, including PCI loans.

Table 24 summarizes loans that were 90+ days delinquent as to interest or principal, and still accruing interest as of June 30, 2017 and December 31, 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 24: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Loan category:				
Credit card	\$1,650	1.62%	\$1,936	1.83%
Consumer banking	—	—	—	—
Commercial banking	—	—	—	—
Total	\$1,650	0.68	\$1,936	0.79
Geographic region:				
Domestic	\$1,542	0.65	\$1,840	0.78
International	108	1.23	96	1.14
Total	\$1,650	0.68	\$1,936	0.79

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

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” in our 2016 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

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Table 25 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of June 30, 2017 and December 31, 2016. 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. 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 25: Nonperforming Loans and Other Nonperforming Assets⁽¹⁾

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Nonperforming loans held for investment:				
Credit Card:				
International card businesses	\$32	0.37%	\$42	0.50%
Total credit card	32	0.03	42	0.04
Consumer Banking:				
Auto	273	0.53	223	0.47
Home loan ⁽²⁾	259	1.31	273	1.26
Retail banking	33	0.96	31	0.86
Total consumer banking ⁽²⁾	565	0.75	527	0.72
Commercial Banking:				
Commercial and multifamily real estate	34	0.13	30	0.11
Commercial and industrial	643	1.62	988	2.48
Total commercial lending	677	1.01	1,018	1.53
Small-ticket commercial real estate	9	1.89	4	0.85
Total commercial banking	686	1.01	1,022	1.53
Other loans	9	14.17	8	13.10
Total nonperforming loans held for investment ⁽³⁾	\$1,292	0.53	\$1,599	0.65
Other nonperforming assets: ⁽⁴⁾				
Foreclosed property	\$69	0.03	\$75	0.03
Other assets ⁽⁵⁾	113	0.04	205	0.08
Total other nonperforming assets	182	0.07	280	0.11
Total nonperforming assets	\$1,474	0.60	\$1,879	0.76

We recognized interest income for loans classified as nonperforming of \$15 million and \$14 million in the first six months of 2017 and 2016, respectively. Interest income foregone related to nonperforming loans was \$34 million

⁽¹⁾ and \$36 million in the first six months of 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.

Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking ⁽²⁾ portfolios were 3.50% and 0.90%, respectively, as of June 30, 2017, compared to 3.81% and 0.90%, respectively, as of December 31, 2016.

⁽³⁾ Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.85% and 1.08% as of June 30, 2017 and December 31, 2016, respectively.

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

⁽⁵⁾ Includes the net realizable value of certain partially charged off auto loans and repossessed assets obtained in satisfaction of auto loans.

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Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine 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” in our 2016 Form 10-K and in this Report for information on our charge-off policy for each of our loan categories.

Table 26 presents our net charge-off amounts and rates, by portfolio segment, in the second quarter and first six months of 2017 and 2016.

Table 26: Net Charge-Offs (Recoveries)

(Dollars in millions)	Three Months Ended June 30,				Six Months Ended June 30,			
	2017		2016		2017		2016	
	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Credit Card:								
Domestic credit card	\$1,172	5.11%	\$874	4.07%	\$2,368	5.12%	\$1,761	4.12%
International card businesses	84	4.08	75	3.54	159	3.88	138	3.39
Total credit card	1,256	5.02	949	4.02	2,527	5.02	1,899	4.05
Consumer Banking: ⁽²⁾								
Auto	215	1.70	130	1.20	414	1.67	298	1.39
Home loan ⁽³⁾	2	0.04	5	0.09	4	0.03	8	0.07
Retail banking	15	1.71	11	1.26	32	1.81	23	1.31
Total consumer banking ⁽³⁾	232	1.25	146	0.83	450	1.22	329	0.93
Commercial Banking:								
Commercial and multifamily real estate	2	0.03	(1)	(0.02)	2	0.02	(2)	(0.02)
Commercial and industrial	134	1.34	60	0.62	156	0.78	107	0.56
Total commercial lending	136	0.81	59	0.37	158	0.47	105	0.33
Small-ticket commercial real estate	0	(0.22)	1	0.33	1	0.43	1	0.23
Total commercial banking	136	0.80	60	0.37	159	0.47	106	0.33
Other loans	(6)	(39.95)	0	(3.06)	(8)	(24.27)	(1)	(3.46)
Total net charge-offs	\$1,618	2.67	\$1,155	2.01	\$3,128	2.59	\$2,333	2.04
Average loans held for investment	\$242,241		\$230,379		\$241,875		\$228,557	

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

In the second quarter of 2017, we implemented changes in accounting estimate impacting our charge-off practices for the treatment of certain loans within our consumer banking loan portfolio. The Auto net charge-offs amount includes approximately \$48 million associated with implementing these changes, with an impact to the net charge-off rate of 38 basis points and 19 basis points for the three and six months ended June 30, 2017,

(2) respectively. Excluding this impact, the Auto net charge-off rate in those periods would have been 1.32% and 1.48%, respectively. The impact to the Consumer Banking net charge-off rate was 26 basis points and 13 basis points for the three and six months ended June 30, 2017, respectively. Excluding this impact, the Consumer Banking net charge-off rate in those periods would have been 0.99% and 1.09%, respectively. See “Note 1—Summary of Significant Accounting Policies” in this Report for additional information.

(3) Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.10% and 1.50%, respectively, for the three months ended June 30, 2017, compared to 0.31% and 1.09%, respectively, for the three months ended June 30, 2016; and 0.09% and 1.48%, respectively, for the six months ended June 30, 2017, compared to 0.24% and 1.24%, respectively, for the six months ended June 30, 2016.

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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 27 presents our recorded investment of loans modified in TDRs as of June 30, 2017 and December 31, 2016, which excludes loan modifications that do not meet the definition of a TDR, and PCI loans, which we track and report separately.

Table 27: Troubled Debt Restructurings

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amount	% of Total Modifications	Amount	% of Total Modifications
Credit card	\$745	31.3%	\$715	29.0%
Consumer banking:				
Auto	483	20.2	523	21.2
Home loan	235	9.9	241	9.8
Retail banking	36	1.5	43	1.7
Total consumer banking	754	31.6	807	32.7
Commercial banking	885	37.1	944	38.3
Total	\$2,384	100.0%	\$2,466	100.0%
Status of TDRs:				
Performing	\$1,741	73.0%	\$1,631	66.1 %
Nonperforming	643	27.0	835	33.9
Total	\$2,384	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 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 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, including TDRs, totaled \$2.9 billion and \$3.2 billion as of June 30, 2017 and December 31, 2016, respectively. Modified TDR loans accounted for \$2.4 billion and \$2.5 billion of impaired loans as of June 30, 2017 and December 31, 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” in our 2016 Form 10-K.

Table 28 presents changes in our allowance for loan and lease losses and reserve for unfunded lending commitments for the second quarter and first six months of 2017 and 2016, and details by portfolio segment for the provision for credit losses, charge-offs and recoveries.

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Table 28: Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Activity

(Dollars in millions)	Three Months Ended June 30, 2017									
	Credit Card			Consumer Banking						
	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 March 31, 2017	\$4,670	\$ 388	\$5,058	\$1,028	\$ 60	\$ 75	\$ 1,163	\$ 761	\$ 2	\$6,984
Charge-offs	(1,454)	(118)	(1,572)	(369)	(3)	(18)	(390)	(140)	—	(2,102)
Recoveries	282	34	316	154	1	3	158	4	6	484
Net charge-offs	(1,172)	(84)	(1,256)	(215)	(2)	(15)	(232)	(136)	6	(1,618)
Provision (benefit) for loan and lease losses	1,327	70	1,397	253	1	14	268	141	(5)	1,801
Allowance build (release) for loan and lease losses	155	(14)	141	38	(1)	(1)	36	5	1	183
Other changes ⁽²⁾	—	11	11	—	—	—	—	(8)	—	3
Balance as of June 30, 2017	4,825	385	5,210	1,066	59	74	1,199	758	3	7,170
Reserve for unfunded lending commitments:										
Balance as of March 31, 2017	—	—	—	—	—	7	7	133	—	140
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	—	—	(1)	—	(1)
Balance as of June 30, 2017	—	—	—	—	—	7	7	132	—	139
Combined allowance and reserve as of June 30, 2017	\$4,825	\$ 385	\$5,210	\$1,066	\$59	\$ 81	\$ 1,206	\$ 890	\$ 3	\$7,309
	Six Months Ended June 30, 2017									
	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, 2016	\$4,229	\$ 377	\$4,606	\$957	\$ 65	\$ 80	\$ 1,102	\$ 793	\$ 2	\$6,503
Charge-offs	(2,938)	(235)	(3,173)	(708)	(7)	(39)	(754)	(166)	—	(4,093)
Recoveries	570	76	646	294	3	7	304	7	8	965
Net charge-offs	(2,368)	(159)	(2,527)	(414)	(4)	(32)	(450)	(159)	8	(3,128)
Provision (benefit) for loan and lease losses	2,964	150	3,114	523	(2)	26	547	135	(7)	3,789
Allowance build (release) for loan and lease losses	596	(9)	587	109	(6)	(6)	97	(24)	1	661
Other changes ⁽²⁾	—	17	17	—	—	—	—	(11)	—	6
Balance as of June 30, 2017	4,825	385	5,210	1,066	59	74	1,199	758	3	7,170

Reserve for unfunded lending commitments:										
Balance as of December 31, 2016	—	—	—	—	—	7	7	129	—	136
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	—	—	3	—	3
Balance as of June 30, 2017	—	—	—	—	—	7	7	132	—	139
Combined allowance and reserve as of June 30, 2017	\$4,825	\$ 385	\$5,210	\$1,066	\$59	\$ 81	\$ 1,206	\$ 890	\$ 3	\$7,309

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(Dollars in millions)	Three Months Ended June 30, 2016									
	Credit Card			Consumer Banking						
	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 March 31, 2016	\$3,440	\$ 345	\$3,785	\$772	\$ 64	\$ 78	\$ 914	\$ 714	\$ 3	\$5,416
Charge-offs	(1,102)	(113)	(1,215)	(227)	(7)	(14)	(248)	(64)	(1)	(1,528)
Recoveries	228	38	266	97	2	3	102	4	1	373
Net charge-offs	(874)	(75)	(949)	(130)	(5)	(11)	(146)	(60)	—	(1,155)
Provision (benefit) for loan and lease losses	1,164	97	1,261	191	(1)	14	204	185	(1)	1,649
Allowance build (release) for loan and lease losses	290	22	312	61	(6)	3	58	125	(1)	494
Other changes ⁽²⁾	—	(11)	(11)	—	—	—	—	(18)	—	(29)
Balance as of June 30, 2016	3,730	356	4,086	833	58	81	972	821	2	5,881
Reserve for unfunded lending commitments:										
Balance as of March 31, 2016	—	—	—	—	—	8	8	218	—	226
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	—	—	(57)	—	(57)
Balance as of June 30, 2016	—	—	—	—	—	8	8	161	—	169
Combined allowance and reserve as of June 30, 2016	\$3,730	\$ 356	\$4,086	\$833	\$ 58	\$ 89	\$ 980	\$ 982	\$ 2	\$6,050
	Six Months Ended June 30, 2016									
	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	(2,225)	(212)	(2,437)	(496)	(12)	(31)	(539)	(112)	(2)	(3,090)
Recoveries	464	74	538	198	4	8	210	6	3	757
Net charge-offs	(1,761)	(138)	(1,899)	(298)	(8)	(23)	(329)	(106)	1	(2,333)
Provision (benefit) for loan and lease losses	2,136	196	2,332	405	(4)	32	433	356	(3)	3,118
Allowance build (release) for loan and lease losses	375	58	433	107	(12)	9	104	250	(2)	785
Other changes ⁽²⁾	—	(1)	(1)	—	—	—	—	(33)	—	(34)
Balance as of June 30, 2016	3,730	356	4,086	833	58	81	972	821	2	5,881

Reserve for unfunded lending commitments:										
Balance as of December 31, 2015	—	—	—	—	—	7	7	161	—	168
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	1	1	—	—	1
Balance as of June 30, 2016	—	—	—	—	—	8	8	161	—	169
Combined allowance and reserve as of June 30, 2016	\$3,730	\$ 356	\$4,086	\$833	\$58	\$ 89	\$ 980	\$ 982	\$ 2	\$6,050

(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 29 presents the allowance coverage ratios as of June 30, 2017 and December 31, 2016.

Table 29: Allowance Coverage Ratios

	June 30, 2017	December 31, 2016
Total allowance coverage ratio ⁽¹⁾	2.93%	2.65%
Allowance coverage ratios by loan category: ⁽¹⁾		
Credit card (30+ day delinquent loans)	141.54	110.83
Consumer banking (30+ day delinquent loans)	36.93	32.32
Commercial banking (nonperforming loans)	110.59	77.58

⁽¹⁾ Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment within the specified loan category.

Our allowance for loan and lease losses increased by \$667 million to \$7.2 billion as of June 30, 2017 from December 31, 2016, and the allowance coverage ratio increased by 28 basis points to 2.93% as of June 30, 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 loss expectations on recent vintages and portfolio seasoning; and

- an allowance build in our auto loan portfolio due to higher losses associated with growth.

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 30 below presents the composition of our liquidity reserves as of June 30, 2017 and December 31, 2016.

Table 30: Liquidity Reserves

(Dollars in millions)	June 30, 2017	December 31, 2016
Cash and cash equivalents	\$6,715	\$9,976
Investment securities available for sale, at fair value	41,120	40,737
Investment securities held to maturity, at fair value	28,423	26,196
Total investment securities portfolio ⁽¹⁾⁽²⁾	69,543	66,933
FHLB borrowing capacity secured by loans	20,906	24,078
Outstanding FHLB advances and letters of credit secured by loans	(2,623)	(17,646)
Investment securities encumbered for Public Funds and others	(9,232)	(9,265)
Total liquidity reserves	\$85,309	\$74,076

⁽¹⁾ The weighted-average life of our securities was approximately 6.1 years and 6.0 years as of June 30, 2017 and December 31, 2016, respectively.

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties and to secure trust and public deposits and other purposes as required or permitted by law. We pledged securities

⁽²⁾ available for sale with a fair value of \$1.6 billion and \$1.9 billion as of June 30, 2017 and December 31, 2016, respectively. We also pledged securities held to maturity with a carrying value of \$8.2 billion and \$8.1 billion as of June 30, 2017 and December 31, 2016, respectively.

Our liquidity reserves increased by \$11.2 billion to \$85.3 billion as of June 30, 2017 from December 31, 2016 primarily due to a reduction in our outstanding FHLB advances. See “MD&A—Risk Management” in our 2016 Form 10-K for additional information on our management of liquidity risk.

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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 June 30, 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” in our 2016 Form 10-K 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 also filed a new 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 \$21.7 billion as of June 30, 2017, of which \$19.1 billion was still available to us to borrow as of June 30, 2017. We pledged loan collateral with an outstanding balance of \$27.1 billion to secure this borrowing capacity. 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 \$141 million and \$760 million as of June 30, 2017 and December 31, 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 \$8.9 billion as of June 30, 2017. Although available, we do not view this borrowing capacity as a primary source of liquidity and did not utilize it for funding during 2016 or the first six months of 2017.

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.

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Deposits

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

Table 31: Deposits Composition and Average Deposits Interest Rates

(Dollars in millions)	June 30, 2017	December 31, 2016				
Non-interest-bearing deposits	\$25,953	\$25,502				
Interest-bearing checking accounts ⁽¹⁾	45,005	45,820				
Saving deposits ⁽²⁾	143,680	145,142				
Time deposits less than \$100,000	20,875	16,949				
Total core deposits	235,513	233,413				
Time deposits of \$100,000 or more	3,821	2,875				
Foreign deposits	429	480				
Total deposits	\$239,763	\$236,768				
	Three Months Ended June 30,					
	2017		2016			
(Dollars in millions)	Average Balance	Interest Expense	Average Deposits Interest Rate	Average Balance	Interest Expense	Average Deposits Interest Rate
Interest-bearing checking accounts ⁽¹⁾	\$45,380	\$ 57	0.50%	\$45,786	\$ 55	0.48%
Saving deposits ⁽²⁾	144,883	234	0.65	136,067	198	0.58
Time deposits less than \$100,000	19,932	76	1.52	10,640	30	1.13
Total interest-bearing core deposits	210,195	367	0.70	192,493	283	0.59
Time deposits of \$100,000 or more	3,721	14	1.46	2,467	9	1.46
Foreign deposits	496	1	0.77	681	—	—
Total interest-bearing deposits	\$214,412	\$ 382	0.71	\$195,641	\$ 292	0.60
	Six Months Ended June 30,					
	2017		2016			
(Dollars in millions)	Average Balance	Interest Expense	Average Deposits Interest Rate	Average Balance	Interest Expense	Average Deposits Interest Rate
Interest-bearing checking accounts ⁽¹⁾	\$45,542	\$ 111	0.49%	\$45,882	\$ 110	0.48%
Saving deposits ⁽²⁾	145,188	459	0.63	135,372	389	0.57
Time deposits less than \$100,000	19,101	139	1.45	10,597	59	1.12
Total interest-bearing core deposits	209,831	709	0.67	191,851	558	0.58
Time deposits of \$100,000 or more	3,375	25	1.45	2,339	16	1.39
Foreign deposits	490	1	0.39	693	1	0.34
Total interest-bearing deposits	\$213,696	\$ 735	0.69	\$194,883	\$ 575	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 \$21.2 billion and \$22.5 billion as of June 30, 2017 and December 31, 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 June 30, 2017 and December 31, 2016, respectively. See “Part I—Item 1. Business—Supervision and Regulation” for additional information.

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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 one-month or a three-month 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 \$34 million to \$958 million as of June 30, 2017 from December 31, 2016.

Our long-term debt, which primarily consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, decreased by \$10.5 billion to \$49.0 billion as of June 30, 2017 from December 31, 2016, primarily attributable to a decrease in our FHLB advances outstanding, partially offset by an increase in our senior and subordinated notes.

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 32 provides a summary of the credit ratings for the senior unsecured long-term debt of Capital One Financial Corporation, COBNA and CONA as of June 30, 2017 and December 31, 2016.

Table 32: Senior Unsecured Long-Term Debt Credit Ratings

	June 30, 2017			December 31, 2016		
	Capital One			Capital One		
	Financial	COBNA	CONA	Financial	COBNA	CONA
	Corporation			Corporation		
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 July 25, 2017, Moody's, S&P and Fitch Ratings ("Fitch") have us on a stable outlook.

MARKET RISK PROFILE

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

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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.

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 in AOCI and our 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 those denominated in GBP.

The intercompany borrowings to our international businesses were 726 million GBP and 786 million GBP as of June 30, 2017 and December 31, 2016, respectively, and 6.3 billion CAD and 6.2 billion CAD as of June 30, 2017 and December 31, 2016, respectively. We hedge all the cash flows associated with these borrowings with forward foreign currency derivative contracts.

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 1.5 billion GBP as of both June 30, 2017 and December 31, 2016, and 970 million CAD and 863 million CAD as of June 30, 2017 and December 31, 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 our 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 1 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 9—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 through interest rate derivatives and mitigating the foreign exchange exposure of certain non-dollar-denominated equity or transactions through derivatives. Our current market risk management policies include the use of derivatives, which are one of the primary tools we use in managing interest rate and foreign exchange risk. 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 \$166.9 billion as of June 30, 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 increases in the +50 and +100 basis points scenarios and declines in the +200 basis points scenario. The net interest income decline in the +200 basis points scenario compared with the +100 basis points scenario is mainly due to our assumption that deposit repricing increases more quickly with higher interest rates.

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 33 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 June 30, 2017 and December 31, 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 33: Interest Rate Sensitivity Analysis

	June 30, 2017	December 31, 2016
Estimated impact on projected baseline net interest income:		
+200 basis points	(0.5)%	(0.1)%
+100 basis points	0.2	0.5
+50 basis points	0.2	0.4
-50 basis points	(0.5)	(1.0)
-100 basis points	(2.3)	N/A
Estimated impact on economic value of equity:		
+200 basis points	(7.1)	(9.6)
+100 basis points	(2.6)	(3.8)
+50 basis points	(1.0)	(1.5)
-50 basis points	(0.3)	0.5
-100 basis points	(2.2)	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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SUPERVISION AND REGULATION

We provide information on our Supervision and Regulation in our 2016 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation.”

FORWARD-LOOKING STATEMENTS

From time to time, we have made and will make forward-looking statements, including those that discuss, among other things, strategies, goals, outlook or other non-historical matters; projections, revenues, income, returns, expenses, capital measures, accruals for claims in litigation and for other claims against us; earnings per share or other financial measures for us; future financial and operating results; our plans, objectives, expectations and intentions; and the assumptions that underlie these matters.

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

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

- general economic and business conditions in the U.S., the U.K., Canada or our local markets, including conditions affecting employment levels, interest rates, collateral values, consumer income, credit worthiness and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses, including increases due to a worsening of general economic conditions in the credit environment, and the impact of inaccurate estimates or inadequate reserves;
- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder, and other regulatory reforms and regulations governing bank capital and liquidity standards, including Basel-related initiatives and potential changes to financial accounting and reporting standards;
- developments, changes or actions relating to any litigation, governmental investigation or regulatory enforcement action or matter involving us;
- the inability to sustain revenue and earnings growth;
- increases or decreases in interest rates;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;
- the success of our marketing efforts in attracting and retaining customers;
- increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;
- the amount and rate of deposit growth;
- changes in the reputation of, or expectations regarding, the financial services industry or us with respect to practices, products or financial condition;
- changes in retail distribution strategies and channels, including in the behavior and expectations of our customers;

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any significant disruption in our operations or in the technology platforms on which we rely, including security failures or breaches of our systems or those of our customers, partners, service providers or other third parties;

- our ability to maintain a compliance and technology infrastructure suitable for the nature of our business;
- our ability to develop digital technology that addresses the needs of our customers, including the challenges relating to rapid significant technological changes;
- the effectiveness of our risk management strategies;
- our ability to control costs, including the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- the extensive use of models in our business, including those to aggregate and assess various risk exposures and estimate certain financial values;
- any significant disruption of, or loss of public confidence in, the internet affecting the ability of our customers to access their accounts and conduct banking transactions;
- our ability to recruit and retain talented and experienced personnel;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees, business partners or third parties;
- competition from providers of products and services that compete with our businesses;
- increased competition for rewards customers resulting in higher rewards expense, or impairing our ability to attract and retain credit card customers;
- merchants' increasing focus on the fees charged by credit card networks; and
- other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under "Part I—Item 1A. Risk Factors" in our 2016 Form 10-K.

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SUPPLEMENTAL TABLE

We report certain non-GAAP measures that management uses in assessing its capital adequacy and the level of return generated. These non-GAAP measures are individually identified and calculations are explained in footnotes below the table. These metrics are considered key financial performance measures for the Company. We believe they provide useful insight to investors and users of our financial information in assessing the results of the Company. The table below provides the details of the calculation of our non-GAAP and regulatory capital measures. While some of 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.

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

(Dollars in millions, except as noted)	June 30, 2017	December 31, 2016
Tangible Common Equity (Period-End)		
Stockholders' equity	\$49,137	\$ 47,514
Goodwill and intangible assets ⁽¹⁾	(15,301)	(15,420)
Noncumulative perpetual preferred stock	(4,360)	(4,360)
Tangible common equity	\$29,476	\$ 27,734
Tangible Common Equity (Quarterly Average)		
Stockholders' equity	\$49,005	\$ 47,972
Goodwill and intangible assets ⁽¹⁾	(15,336)	(15,455)
Noncumulative perpetual preferred stock	(4,360)	(4,051)
Tangible common equity	\$29,309	\$ 28,466
Tangible Assets (Period-End)		
Total assets	\$350,593	\$ 357,033
Goodwill and intangible assets ⁽¹⁾	(15,301)	(15,420)
Tangible assets	\$335,292	\$ 341,613
Tangible Assets (Quarterly Average)		
Total assets	\$349,891	\$ 350,225
Goodwill and intangible assets ⁽¹⁾	(15,336)	(15,455)
Tangible assets	\$334,555	\$ 334,770
Non-GAAP Ratio		
TCE ⁽²⁾	8.8%	8.1%
Capital Ratios⁽³⁾		
Common equity Tier 1 capital ⁽⁴⁾	10.7	% 10.1%
Tier 1 capital ⁽⁵⁾	12.2	11.6
Total capital ⁽⁶⁾	14.9	14.3
Tier 1 leverage ⁽⁷⁾	10.3	9.9
Supplementary leverage ⁽⁸⁾	8.9	8.6
Regulatory Capital Metrics		
Risk-weighted assets ⁽⁹⁾	\$283,231	\$ 285,756
Adjusted average assets ⁽⁷⁾	335,248	335,835
Total leverage exposure for supplementary leverage ratio	390,561	387,921

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(Dollars in millions)	June 30, 2017	December 31, 2016
Regulatory Capital Under Basel III Standardized Approach		
Common equity excluding AOCI	\$45,459	\$44,103
Adjustments:		
AOCI ⁽¹⁰⁾⁽¹¹⁾	(593)	(674)
Goodwill, net of related deferred tax liabilities	(14,299)	(14,307)
Intangible assets, net of related deferred tax liabilities ⁽¹¹⁾	(419)	(384)
Other	78	65
Common equity Tier 1 capital	30,226	28,803
Tier 1 capital instruments	4,360	4,359
Additional Tier 1 capital adjustments	(1)	—
Tier 1 capital	34,585	33,162
Tier 2 capital instruments	3,930	4,047
Qualifying allowance for loan and lease losses	3,586	3,608
Tier 2 capital	7,516	7,655
Total capital ⁽¹²⁾	\$42,101	\$40,817

(1) Includes impact of related deferred taxes.

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

Ratios as of June 30, 2017 are preliminary. As we continue to validate our data, the calculations are subject to

(3) change until we file our June 30, 2017 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

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

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

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

Adjusted average assets, for the purpose of calculating our Tier 1 leverage ratio, represent total average

(7) 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.

(8) 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.

(9) Includes credit and market risk weighted assets.

(10) Amounts presented are net of tax.

(11) Amounts based on transition provisions for regulatory capital deductions and adjustments of 60% for 2016 and 80% for 2017.

(12) Total capital equals the sum of Tier 1 capital and Tier 2 capital.

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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.

Annual Report: References to our “2016 Form 10-K” or “2016 Annual Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

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 Banking 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.

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.

CCB: Chevy Chase Bank, F.S.B., which was acquired by the Company in 2009.

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.

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.

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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 Final LCR Rule applies to institutions with \$250 billion or more in total consolidated assets or \$10 billion or more in total consolidated on-balance sheet foreign exposure, and their respective consolidated subsidiary depository institutions with \$10 billion or more in total consolidated assets. The LCR is calculated by dividing the amount of an institution’s high quality, unencumbered liquid assets 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.

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

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

Insured securitizations: Securitizations supported by bond insurance.

Interest rate sensitivity: The exposure to interest rate movements.

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

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

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

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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.

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

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

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

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

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

Purchased credit-impaired (“PCI”) loans: Refers to the 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 (formerly known as “Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer,” commonly referred to as “SOP 03-3”). Acquired loans are considered PCI loans if they have a discount attributable, at least in part, to credit deterioration and they are not specifically scoped out of this guidance. Our PCI loans include a limited portion of commercial loans acquired in the HFS acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase acquisitions.

The excess of cash flows expected to be collected over the estimated fair value of purchased loans represents the accretable yield, which is recognized into interest income over the life of the loans. 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, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows 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. PCI loans are not classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference will absorb the majority of the losses associated with these loans. In addition, PCI

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loans are excluded from impaired loans because the applicable accounting methodology takes into consideration expected future credit losses.

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 typically from the consolidation or relocation of operations, and reductions in work force.

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.

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.

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

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

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

BMA: Bank Merger Act

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

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

CVA: Credit valuation adjustment

DVA: Debit valuation adjustment

Fannie Mae: Federal National Mortgage Association

FASB: Financial Accounting Standards Board

FCA: Financial Conduct Authority

FCM: Futures commission merchant

FDIC: Federal Deposit Insurance Corporation

FFIEC: Federal Financial Institutions Examination Council

FHFA: Federal Housing Finance Agency

FHLB: Federal Home Loan Banks

FIRREA: Financial Institutions Reform, Recovery and Enforcement Act

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

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

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LCH: London Clearing House, or Clearnet
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
OCC: Office of the Comptroller of the Currency
OCI: Other comprehensive income
OTC: Over-the-counter
PCA: Prompt corrective action
PCI: Purchased credit-impaired
PCCR: Purchased credit card relationship
PPI: Payment protection insurance
REO: Real estate owned
RMBS: Residential mortgage-backed securities
S&P: Standard & Poor's
SEC: U.S. Securities and Exchange Commission
SLR: Supplementary leverage ratio
TARP: Troubled Asset Relief Program
TCE: Tangible common equity
TDR: Troubled debt restructuring
U.K.: United Kingdom
U.S.: United States of America
VAC: Valuations Advisory Committee

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64 Capital One Financial Corporation (COF)

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months		Six Months Ended	
	Ended June 30,		June 30,	
(Dollars in millions, except per share-related data)	2017	2016	2017	2016
Interest income:				
Loans, including loans held for sale	\$5,669	\$5,148	\$11,295	\$10,233
Investment securities	433	405	849	820
Other	26	18	54	35
Total interest income	6,128	5,571	12,198	11,088
Interest expense:				
Deposits	382	292	735	575
Securitized debt obligations	82	47	151	95
Senior and subordinated notes	179	111	328	217
Other borrowings	12	28	37	52
Total interest expense	655	478	1,251	939
Net interest income	5,473	5,093	10,947	10,149
Provision for credit losses	1,800	1,592	3,792	3,119
Net interest income after provision for credit losses	3,673	3,501	7,155	7,030
Non-interest income:				
Service charges and other customer-related fees	418	393	789	816
Interchange fees, net	676	621	1,246	1,225
Net securities gains (losses)	(4)	) 0	(4)	) (8)
Other	141	147	261	292
Total non-interest income	1,231	1,161	2,292	2,325
Non-interest expense:				
Salaries and associate benefits	1,383	1,279	2,854	2,549
Occupancy and equipment	474	465	945	923
Marketing	435	415	831	843
Professional services	279	264	526	505
Communications and data processing	289	302	577	582
Amortization of intangibles	61	95	123	196
Other	493	475	992	920
Total non-interest expense	3,414	3,295	6,848	6,518
Income from continuing operations before income taxes	1,490	1,367	2,599	2,837
Income tax provision	443	424	757	876
Income from continuing operations, net of tax	1,047	943	1,842	1,961
Income (loss) from discontinued operations, net of tax	(11)	) (1)	) 4	(6)
Net income	1,036	942	1,846	1,955
Dividends and undistributed earnings allocated to participating securities	(8)	) (6)	) (13)	) (12)
Preferred stock dividends	(80)	) (65)	) (133)	) (102)
Net income available to common stockholders	\$948	\$871	\$1,700	\$1,841
Basic earnings per common share:				
Net income from continuing operations	\$1.98	\$1.70	\$3.51	\$3.57
Income (loss) from discontinued operations	(0.02)	) 0.00	0.01	(0.01)
Net income per basic common share	\$1.96	\$1.70	\$3.52	\$3.56
Diluted earnings per common share:				
Net income from continuing operations	\$1.96	\$1.69	\$3.48	\$3.53

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Income (loss) from discontinued operations	(0.02)	0.00	0.01	(0.01)
Net income per diluted common share	\$1.94	\$1.69	\$3.49	\$3.52
Dividends paid per common share	\$0.40	\$0.40	\$0.80	\$0.80

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months		Six Months	
	Ended June 30, 2017	2016	Ended June 30, 2017	2016
Net income	\$1,036	\$942	\$1,846	\$1,955
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale	149	136	185	323
Net changes in securities held to maturity	23	25	46	46
Net unrealized gains (losses) on cash flow hedges	45	143	(21)	520
Foreign currency translation adjustments	31	(30)	48	(29)
Other	3	8	8	(3)
Other comprehensive income (loss), net of tax	251	282	266	857
Comprehensive income	\$1,287	\$1,224	\$2,112	\$2,812

See Notes to Consolidated Financial Statements.

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Table of ContentsCAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	June 30, 2017	December 31, 2016
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$3,352	\$ 4,185
Interest-bearing deposits and other short-term investments	3,363	5,791
Total cash and cash equivalents	6,715	9,976
Restricted cash for securitization investors	300	2,517
Securities available for sale, at fair value	41,120	40,737
Securities held to maturity, at carrying value	27,720	25,712
Loans held for investment:		
Unsecuritized loans held for investment	214,864	213,824
Loans held in consolidated trusts	29,438	31,762
Total loans held for investment	244,302	245,586
Allowance for loan and lease losses	(7,170)	(6,503)
Net loans held for investment	237,132	239,083
Loans held for sale, at lower of cost or fair value	777	1,043
Premises and equipment, net	3,825	3,675
Interest receivable	1,346	1,351
Goodwill	14,524	14,519
Other assets	17,134	18,420
Total assets	\$350,593	\$ 357,033
Liabilities:		
Interest payable	\$376	\$ 327
Deposits:		
Non-interest-bearing deposits	25,953	25,502
Interest-bearing deposits	213,810	211,266
Total deposits	239,763	236,768
Securitized debt obligations	18,358	18,826
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	958	992
Senior and subordinated notes	28,478	23,431
Other borrowings	2,160	17,211
Total other debt	31,596	41,634
Other liabilities	11,363	11,964
Total liabilities	301,456	309,519
Commitments, contingencies and guarantees (see Note 14)		
Stockholders' equity:		
Preferred stock (par value \$.01 per share; 50,000,000 shares authorized; 4,475,000 shares issued and outstanding as of both June 30, 2017 and December 31, 2016)	0	0
Common stock (par value \$.01 per share; 1,000,000,000 shares authorized; 659,656,040 and 653,736,607 shares issued as of June 30, 2017 and December 31, 2016, respectively, 483,692,646 and 480,218,547 shares outstanding as of June 30, 2017 and December 31,	7	7

2016, respectively)

Additional paid-in capital, net	31,413	31,157
Retained earnings	31,086	29,766
Accumulated other comprehensive loss	(683	) (949
Treasury stock, at cost (par value \$.01 per share; 175,963,394 and 173,518,060 shares as of June 30, 2017 and December 31, 2016, respectively)	(12,686	) (12,467
Total stockholders' equity	49,137	47,514
Total liabilities and stockholders' equity	\$350,593	\$ 357,033

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(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	Amount					
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 (loss)						1,846	266		2,112	
Dividends—common stock			32,577	0	3	(393)			(390)	
Dividends—preferred stock						(133)			(133)	
Purchases of treasury stock								(219)	(219)	
Issuances of common stock and restricted stock, net of forfeitures			2,958,569	0	79				79	
Exercises of stock options and warrants			2,928,287	0	81				81	
Compensation expense for restricted stock awards, restricted stock units and stock options					93				93	
Balance as of June 30, 2017	4,475,000	\$ 0	659,656,040	\$ 7	\$ 31,413	\$ 31,086	\$ (683)	\$(12,686)	\$ 49,137	

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Six Months Ended June 30,	
	2017	2016
(Dollars in millions)		
Operating activities:		
Income from continuing operations, net of tax	\$1,842	\$1,961
Income (loss) from discontinued operations, net of tax	4	(6)
Net income	1,846	1,955
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	3,792	3,119
Depreciation and amortization, net	1,131	1,207
Deferred tax benefit	(235)	(377)
Net (gain) loss on sales of securities available for sale	0	(2)
Impairment losses on securities available for sale	4	10
Gain on sales of loans held for sale	(19)	(57)
Stock plan compensation expense	111	90
Other	0	(10)
Loans held for sale:		
Originations and purchases	(3,834)	(3,264)
Proceeds from sales and paydowns	4,123	3,133
Changes in operating assets and liabilities:		
Changes in interest receivable	5	(48)
Changes in other assets	1,314	42
Changes in interest payable	49	2
Changes in other liabilities	(1,264)	754
Net change from discontinued operations	0	14
Net cash from operating activities	7,023	6,568
Investing activities:		
Securities available for sale:		
Purchases	(6,479)	(6,887)
Proceeds from paydowns and maturities	3,604	3,737
Proceeds from sales	3,123	2,699
Securities held to maturity:		
Purchases	(2,893)	(1,612)
Proceeds from paydowns and maturities	1,183	1,109
Loans:		
Net changes in loans held for investment	(3,019)	(8,271)
Principal recoveries of loans previously charged off	965	757
Purchases of premises and equipment	(483)	(324)
Net cash from other investing activities	(296)	(126)
Net cash from investing activities	(4,295)	(8,918)
See Notes to Consolidated Financial Statements.		
(Dollars in millions)		
Financing activities:		
Deposits and borrowings:		
Changes in deposits	\$2,964	\$3,331
Issuance of securitized debt obligations	2,991	1,920

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Maturities and paydowns of securitized debt obligations	(3,483)	(2,044)
Issuance of senior and subordinated notes and long-term FHLB advances	11,865	14,950
Maturities and paydowns of senior and subordinated notes and long-term FHLB advances	(21,940)	(15,401)
Changes in other borrowings	(21)	18
Common stock:		
Net proceeds from issuances	79	64
Dividends paid	(390)	(416)
Preferred stock:		
Dividends paid	(133)	(102)
Purchases of treasury stock	(219)	(1,599)
Proceeds from share-based payment activities	81	3
Net cash from financing activities	(8,206)	724
Changes in cash, cash equivalents and restricted cash for securitization investors	(5,478)	(1,626)
Cash, cash equivalents and restricted cash for securitization investors, beginning of the period	12,493	9,040
Cash, cash equivalents and restricted cash for securitization investors, ending of the period	\$7,015	\$7,414
Supplemental cash flow information:		
Non-cash item:		
Net transfers from loans held for investment to loans held for sale	\$265	\$435
Interest paid	1,269	937
Income tax paid	467	1,072

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 June 30, 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 13—Business Segments.”

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair statement of this interim financial information. Certain prior period amounts have been reclassified to conform to the current period presentation.

Principles of Consolidation

The unaudited 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.

Loans

Charge-Offs

In the second quarter of 2017, we implemented changes in accounting estimate impacting our charge-off practices for the treatment of certain loans within our consumer banking loan portfolio. This includes changes to the charge-off timing of auto and home loans where the borrower has filed for bankruptcy and the loans have not been reaffirmed, which are now charged off in the period that the loan is 60 days from the bankruptcy notification date.

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 have 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. 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 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

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, through a modified retrospective method.

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, step one compares an entity's reporting unit's carrying value to its fair value. If the carrying value exceeds fair value, an entity then performs step two, which assigns the fair value across its assets and liabilities, including unrecognized assets and liabilities, following a procedure required in purchase accounting. Under the new guidance, the impairment to 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 impairment method applies to all reporting units, including those with zero or negative carrying amounts of net assets. The guidance is effective for us on January 1, 2020, with early adoption permitted for interim or annual goodwill impairment tests performed after January 1, 2017. 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, lease receivables 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 will be effective for us on January 1, 2020, with early adoption permitted no earlier

than January 1, 2019. We are currently assessing the potential impact on our consolidated financial statements; however, due to the significant differences in the revised guidance from existing GAAP, the implementation of this guidance may result in material changes in our accounting 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 the balance sheet and disclose key information about leasing arrangements for all leases, with certain practical expedients. This will be effective for us on January 1, 2019, with early adoption permitted. We plan to adopt the standard on the effective date. We are currently assessing the potential impact on our consolidated financial statements; however, we expect our total assets and liabilities on our consolidated balance sheet to increase.

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) most equity investments are to be measured at fair value and 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 use of the exit price notion is required when valuing financial instruments for disclosure purposes; (iii) an entity shall present separately in other comprehensive income the portion of the total change in the fair value of a liability under fair value option resulting from a change in the instrument-specific credit risk; (iv) the determination of the need for a valuation allowance on a deferred tax asset related to available-for-sale securities must be made in combination with other deferred tax assets. The guidance eliminates the current classifications of equity securities as trading or available-for-sale 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. The guidance will be effective January 1, 2018. Early adoption is only permitted for the requirement to present the portion of the total change in fair value attributable to a change in the instrument-specific credit risk in other comprehensive income. We plan on adopting the guidance effective January 1, 2018, and do not expect the guidance to 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 has been 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, once effective, will replace significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Entities can elect to adopt the guidance either on a full or modified retrospective basis.

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. Our implementation efforts have included identifying revenues and related costs within the scope of this guidance, reviewing the associated contracts and evaluating the related accounting policies and internal controls to determine if any changes will be required. Efforts to evaluate the effect of this guidance, assess changes in our disclosures required by this guidance and consider the adoption methods are ongoing. We have not identified any material changes in the timing of recognition of revenues or expenses. We are still evaluating some changes to the income statement classification of certain credit card-related expenses. We plan to adopt this guidance on the effective date.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 2—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. We have no significant continuing involvement in these operations.

The following table summarizes the results from discontinued operations for the three and six months ended June 30, 2017 and 2016:

Table 2.1: Results of Discontinued Operations

	Three Months Ended June 30, 2017		Six Months Ended June 30, 2016	
(Dollars in millions)	2017	2016	2017	2016
Income (loss) from discontinued operations before income taxes	\$ (17)	\$ (2)	\$ 7	\$ (10)
Income tax provision (benefit)	(6)	(1)	3	(4)
Income (loss) from discontinued operations, net of tax	\$ (11)	\$ (1)	\$ 4	\$ (6)

The discontinued mortgage origination operations of our wholesale mortgage banking unit have remaining assets primarily consisting of a deferred tax asset related to the reserve for representations and warranties on loans previously sold to third parties. We also have contingent obligations to exercise certain mandatory clean-up calls associated with securitization transactions undertaken by the discontinued GreenPoint Credit, LLC manufactured housing operations in the event the third-party servicer does not fulfill its obligation to exercise these clean-up calls. See “Note 6—Variable Interest Entities and Securitizations” and “Note 14—Commitments, Contingencies, Guarantees and Others” for information on the reserve related to our retained interests and obligations associated with GreenPoint Credit, LLC manufactured housing operations and the reserves we have established for our mortgage representation and warranty exposure.

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NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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 and non-agency commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other securities. The carrying value of our investments in U.S. Treasury and Agency securities represented 91% of our total investment securities as of both June 30, 2017 and December 31, 2016.

The table below presents the overview of our investment securities portfolio as of June 30, 2017 and December 31, 2016.

Table 3.1: Overview of Investment Securities Portfolio

(Dollars in millions)	June 30, December 31,	
	2017	2016
Securities available for sale, at fair value	\$41,120	\$ 40,737
Securities held to maturity, at carrying value	27,720	25,712
Total investment securities	\$68,840	\$ 66,449

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of June 30, 2017 and December 31, 2016.

Table 3.2: Investment Securities Available for Sale

(Dollars in millions)	June 30, 2017			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses ⁽¹⁾	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$5,218	\$ 27	\$ (30)	\$5,215
RMBS:				
Agency ⁽²⁾	26,693	110	(292)	26,511
Non-agency	2,163	458	(4)	2,617
Total RMBS	28,856	568	(296)	29,128
CMBS:				
Agency ⁽²⁾	3,136	19	(31)	3,124
Non-agency	1,777	28	(3)	1,802
Total CMBS	4,913	47	(34)	4,926
Other ABS ⁽³⁾	626	1	0	627
Other securities ⁽⁴⁾	1,220	4	0	1,224
Total investment securities available for sale	\$40,833	\$ 647	\$ (360)	\$41,120

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(Dollars in millions)	December 31, 2016			
	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 ⁽²⁾	26,830	109	(412)	26,527
Non-agency	2,349	382	(9)	2,722
Total RMBS	29,179	491	(421)	29,249
CMBS:				
Agency ⁽²⁾	3,335	14	(45)	3,304
Non-agency	1,676	21	(13)	1,684
Total CMBS	5,011	35	(58)	4,988
Other ABS ⁽³⁾	714	1	(1)	714
Other securities ⁽⁴⁾	726	1	(6)	721
Total investment securities available for sale	\$40,733	\$ 539	\$ (535)	\$40,737

Includes non-credit-related OTTI that is recorded in accumulated other comprehensive income ("AOCI") of \$4 million and \$9 million as of June 30, 2017 and December 31, 2016, respectively. Substantially all of this amount is related to non-agency RMBS.

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

ABS collateralized by credit card loans constituted approximately 49% and 57% of the other ABS portfolio as of June 30, 2017 and December 31, 2016, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 23% of the other ABS portfolio as of both June 30, 2017 and December 31, 2016.

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 June 30, 2017 and December 31, 2016.

Table 3.3: Investment Securities Held to Maturity

(Dollars in millions)	June 30, 2017					
	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	24,741	(831)	23,910	724	(97)	24,537
Agency CMBS	3,696	(85)	3,611	101	(25)	3,687
Total investment securities held to maturity	\$28,636	\$ (916)	\$27,720	\$ 825	\$ (122)	\$28,423
(Dollars in millions)	December 31, 2016					
	Amortized Cost	Unrealized Losses Recorded in AOCI ⁽¹⁾	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

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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 June 30, 2017 and December 31, 2016.

Table 3.4: Securities in a Gross Unrealized Loss Position

(Dollars in millions)	June 30, 2017					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	\$1,079	\$ (30)	\$0	\$ 0	\$1,079	\$ (30)
RMBS:						
Agency	14,491	(211)	4,845	(81)	19,336	(292)
Non-agency	12	0	49	(4)	61	(4)
Total RMBS	14,503	(211)	4,894	(85)	19,397	(296)
CMBS:						
Agency	977	(9)	833	(22)	1,810	(31)
Non-agency	374	(3)	61	0	435	(3)
Total CMBS	1,351	(12)	894	(22)	2,245	(34)
Other ABS	113	0	17	0	130	0
Other securities	355	0	0	0	355	0
Total investment securities available for sale in a gross unrealized loss position	\$17,401	\$ (253)	\$5,805	\$ (107)	\$23,206	\$ (360)
	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
(Dollars in millions)						
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)

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As of June 30, 2017, the amortized cost of approximately 750 securities available for sale exceeded their fair value by \$360 million, of which \$107 million related to securities that had been in a loss position for 12 months or longer. As of June 30, 2017, our investments in non-agency RMBS and CMBS, other ABS and other securities accounted for \$7 million, or 2%, of total gross unrealized losses on securities available for sale. As of June 30, 2017, the carrying value of approximately 150 securities classified as held to maturity exceeded their fair value by \$122 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.

Maturities and Yields of Investment Securities

The following tables summarize the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of June 30, 2017.

Table 3.5: Contractual Maturities of Securities Available for Sale

(Dollars in millions)	June 30, 2017	
	Amortized Cost	Fair Value
Due in 1 year or less	\$707	\$ 709
Due after 1 year through 5 years	3,159	3,192
Due after 5 years through 10 years	6,572	6,584
Due after 10 years ⁽¹⁾	30,395	30,635
Total	\$40,833	\$ 41,120

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

Table 3.6: Contractual Maturities of Securities Held to Maturity

(Dollars in millions)	June 30, 2017	
	Carrying Value	Fair Value
Due in 1 year or less	\$199	\$ 199
Due after 1 year through 5 years	418	441
Due after 5 years through 10 years	942	987
Due after 10 years	26,161	26,796
Total	\$27,720	\$ 28,423

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above.

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The table below summarizes, by major security type, the expected maturities and weighted-average yields of our investment securities as of June 30, 2017.

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

(Dollars in millions)	June 30, 2017					Total
	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years		
Fair value of securities available for sale:						
U.S. Treasury securities	\$ 102	\$ 847	\$ 4,266	\$ 0		\$ 5,215
RMBS:						
Agency	177	11,743	14,591	0		26,511
Non-agency	18	1,036	1,268	295		2,617
Total RMBS	195	12,779	15,859	295		29,128
CMBS:						
Agency	130	1,544	1,450	0		3,124
Non-agency	179	1,064	559	0		1,802
Total CMBS	309	2,608	2,009	0		4,926
Other ABS	348	272	7	0		627
Other securities	216	562	103	343		1,224
Total securities available for sale	\$ 1,170	\$ 17,068	\$ 22,244	\$ 638		\$ 41,120
Amortized cost of securities available for sale	\$ 1,169	\$ 16,884	\$ 22,186	\$ 594		\$ 40,833
Weighted-average yield for securities available for sale ⁽¹⁾	1.36 %	2.45 %	2.45 %	4.96 %		2.45 %
Carrying value of securities held to maturity:						
U.S. Treasury securities	\$ 199	\$ 0	\$ 0	\$ 0		\$ 199
Agency RMBS	28	1,608	17,865	4,409		23,910
Agency CMBS	0	819	1,743	1,049		3,611
Total securities held to maturity	\$ 227	\$ 2,427	\$ 19,608	\$ 5,458		\$ 27,720
Fair value of securities held to maturity	\$ 225	\$ 2,501	\$ 20,092	\$ 5,605		\$ 28,423
Weighted-average yield for securities held to maturity ⁽¹⁾	0.60 %	2.57 %	2.68 %	3.36 %		2.78 %

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

Other-Than-Temporary Impairment

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

If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. As of June 30, 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. The table below presents a rollforward of the credit-related OTTI recognized in earnings for the three and six months ended June 30, 2017 and 2016 on investment securities for which we had no intent to sell.

Table 3.8: Credit Impairment Rollforward

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Credit loss component, beginning of period	\$206	\$204	\$207	\$199
Additions:				
Initial credit impairment	0	1	0	1
Subsequent credit impairment	1	1	1	7
Total additions	1	2	1	8
Reductions due to payoffs, disposals, transfers and other	0	(2)	(1)	(3)
Credit loss component, end of period	\$207	\$204	\$207	\$204

Realized Gains and Losses on Securities and OTTI Recognized in Earnings

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale, and the OTTI losses recognized in earnings for the three and six months ended June 30, 2017 and 2016. 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 3.9: Realized Gains and Losses and OTTI Recognized in Earnings

(Dollars in millions)	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Realized gains (losses):				
Gross realized gains	\$0	\$3	\$5	\$6
Gross realized losses	0	(1)	(5)	(4)
Net realized gains	0	2	0	2
OTTI recognized in earnings:				
Credit-related OTTI	(1)	(2)	(1)	(8)
Intent-to-sell OTTI	(3)	0	(3)	(2)
Total OTTI recognized in earnings	(4)	(2)	(4)	(10)
Net securities gains (losses)	\$(4)	\$0	\$(4)	\$(8)
Total proceeds from sales	\$235	\$776	\$3,123	\$2,699

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Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Banks (“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 \$1.6 billion and \$1.9 billion as of June 30, 2017 and December 31, 2016, respectively. We also pledged securities held to maturity with a carrying value of \$8.2 billion and \$8.1 billion as of June 30, 2017 and December 31, 2016, respectively. Of the total securities pledged as collateral, we have encumbered a fair value of \$9.2 billion and \$9.3 billion as of June 30, 2017 and December 31, 2016, respectively, primarily related to Public Fund deposits. We accepted pledges of securities with a fair value of \$1 million and \$16 million as of June 30, 2017 and December 31, 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 June 30, 2017 and December 31, 2016.

Table 3.10: Outstanding Balance and Carrying Value of Acquired Credit-Impaired Debt Securities

(Dollars in millions)	June 30, December 31,	
	2017	2016
Outstanding balance	\$ 2,669	\$ 2,899
Carrying value	2,221	2,277

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 three and six months ended June 30, 2017.

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

(Dollars in millions)	Three	Six
	Months	Months
	Ended	Ended
	June 30,	June 30,
	2017	2017
Accretable yield, beginning of period	\$1,118	\$1,173
Accretion recognized in earnings	(49)	(98)
Reduction due to payoffs, disposals, transfers and other	1	(3)
Net reclassifications from nonaccretable difference	23	21
Accretable yield, end of period	\$1,093	\$1,093

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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” in our 2016 Form 10-K for additional information on the accounting guidance for these loans.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency 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 June 30, 2017 and December 31, 2016. The delinquency aging includes all past due loans, both performing and nonperforming.

Table 4.1: Loan Portfolio Composition and Aging Analysis

(Dollars in millions)	June 30, 2017						
	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	\$89,493	\$1,105	\$726	\$1,542	\$3,373	\$0	\$92,866
International card businesses	8,415	121	67	121	309	0	8,724
Total credit card	97,908	1,226	793	1,663	3,682	0	101,590
Consumer Banking:							
Auto	48,733	1,984	833	215	3,032	0	51,765
Home loan	7,203	34	13	126	173	12,348	19,724
Retail banking	3,421	16	5	19	40	23	3,484
Total consumer banking	59,357	2,034	851	360	3,245	12,371	74,973
Commercial Banking:							
Commercial and multifamily real estate	27,334	39	0	29	68	26	27,428
Commercial and industrial	39,000	51	14	238	303	498	39,801
Total commercial lending	66,334	90	14	267	371	524	67,229
Small-ticket commercial real estate	434	2	1	6	9	0	443
Total commercial banking	66,768	92	15	273	380	524	67,672
Other loans	59	3	0	5	8	0	67
Total loans ⁽¹⁾	\$224,092	\$3,355	\$1,659	\$2,301	\$7,315	\$12,895	\$244,302
% of Total loans	91.73%	1.37%	0.68%	0.94%	2.99%	5.28%	100.00%

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(Dollars in millions)	December 31, 2016						
	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%

Loans (other than PCI loans) include unearned income, unamortized premiums and discounts, and unamortized⁽¹⁾ deferred fees and costs totaling \$664 million and \$558 million as of June 30, 2017 and December 31, 2016, respectively.

We pledge loan collateral at the FHLB to secure borrowing capacity. As of June 30, 2017 and December 31, 2016, we pledged loan collateral of \$27.1 billion and \$29.3 billion to secure borrowing capacity of \$21.7 billion and \$24.9 billion, 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 June 30, 2017 and December 31, 2016.

Table 4.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans⁽¹⁾

(Dollars in millions)	June 30, 2017		December 31, 2016	
	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Credit Card:				
Domestic credit card	\$1,542	N/A	\$1,840	N/A
International card businesses	108	\$ 32	96	\$ 42
Total credit card	1,650	32	1,936	42
Consumer Banking:				
Auto	0	273	0	223
Home loan	0	259	0	273
Retail banking	0	33	0	31
Total consumer banking	0	565	0	527

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(Dollars in millions)	June 30, 2017		December 31, 2016	
	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Commercial Banking:				
Commercial and multifamily real estate	\$0	\$ 34	\$0	\$ 30
Commercial and industrial	0	643	0	988
Total commercial lending	0	677	0	1,018
Small-ticket commercial real estate	0	9	0	4
Total commercial banking	0	686	0	1,022
Other loans	0	9	0	8
Total	\$1,650	\$ 1,292	\$1,936	\$ 1,599
% of Total loans	0.68%	0.53%	0.79%	0.65%

(1) Nonperforming loans generally include loans that have been placed on nonaccrual status. PCI loans are excluded from loans reported as 90 days or more past due and accruing interest as well as nonperforming loans. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for additional information on our policies for nonperforming loans.

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 June 30, 2017 and December 31, 2016.

Table 4.3: Credit Card Risk Profile by Geographic Region

(Dollars in millions)	June 30, 2017		December 31, 2016	
	Amount	% of Total ⁽¹⁾	Amount	% of Total ⁽¹⁾
Domestic credit card:				
California	\$10,629	10.4%	\$11,068	10.5%
Texas	6,980	6.9	7,227	6.8
New York	6,780	6.7	7,090	6.7
Florida	6,269	6.2	6,540	6.2
Illinois	4,271	4.2	4,492	4.3
Pennsylvania	3,822	3.8	4,048	3.8
Ohio	3,436	3.4	3,654	3.5
New Jersey	3,313	3.3	3,488	3.3
Michigan	2,994	2.9	3,164	3.0
Other	44,372	43.6	46,349	43.9
Total domestic credit card	92,866	91.4	97,120	92.0
International card businesses:				
Canada	5,750	5.7	5,594	5.3
United Kingdom	2,974	2.9	2,838	2.7

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Total international card businesses	8,724	8.6	8,432	8.0
Total credit card	\$101,590	100.0%	\$105,552	100.0 %

⁽¹⁾ Percentages by geographic region are calculated based on period-end amounts.

The table below presents net charge-offs for the three and six months ended June 30, 2017 and 2016.

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Table 4.4: Credit Card Net Charge-Offs

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
(Dollars in millions)	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Net charge-offs: ⁽¹⁾				
Domestic credit card	\$1,172	5.11%	\$874	4.07%
International card businesses	84	4.08	75	3.54
Total credit card	\$1,256	5.02	\$949	4.02

(1) Net charge-offs consist of the unpaid principal balance that we determine to be uncollectible, net of recovered amounts. The net charge-off rate is calculated by dividing annualized net charge-offs by average balance of 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.

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.

The table below displays the geographic profile of our consumer banking loan portfolio, including PCI loans as of June 30, 2017 and December 31, 2016.

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