

CAPITAL ONE FINANCIAL CORP

Form 10-Q

November 03, 2016

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

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FORM 10-Q

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

For the quarterly period ended September 30, 2016

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

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

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

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

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

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

Large accelerated filer  Accelerated filer

Non-accelerated filer  Smaller reporting company

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

As of October 31, 2016, there were 482,301,385 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 2015 Annual Report on Form 10-K (“2015 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 September 30, 2016 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 unaudited consolidated financial statements and related notes in this Report and the more detailed information contained in our 2015 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 September 30, 2016, 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 currently organized for management reporting purposes into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio and asset/liability management by our centralized Corporate Treasury group, are included in the Other category.

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

• Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, 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 businesses. 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 have entered into a 10-year 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 have entered into a definitive agreement under which we will 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. This transaction is subject to the satisfaction of customary closing conditions, including receipt of various regulatory approvals and the approval of the stockholders of Cabela's. In determining whether to approve the proposed acquisition, the Office of the Comptroller of the Currency ("OCC") will consider, among other factors, the convenience and needs of the communities we serve and our effectiveness in combating money laundering, including the acceptability to the OCC of our progress in addressing the requirements of the consent order with the OCC that we previously disclosed in our Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2015. We cannot be certain when or if, or on what terms and conditions, required regulatory approvals will be granted to complete the acquisition.

On December 1, 2015, we completed the acquisition of the Healthcare Financial Services business of General Electric Capital Corporation ("HFS acquisition"). During the second quarter of 2016, we finalized purchase accounting for the HFS acquisition, and recognized approximately \$9.2 billion in assets, including \$8.2 billion of loans. See "Note 1—Summary of Significant Accounting Policies" of this Report and "Note 2—Business Developments" in our 2015 Form 10-K for additional information.

We had no significant acquisitions or dispositions in the first nine months of 2016.

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## SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the third quarter and first nine months of 2016 and 2015 and selected comparative balance sheet data as of September 30, 2016 and December 31, 2015. 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 September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Income statement						
Net interest income	\$5,277	\$4,760	11%	\$15,426	\$13,873	11%
Non-interest income	1,184	1,140	4	3,509	3,346	5
Total net revenue	6,461	5,900	10	18,935	17,219	10
Provision for credit losses	1,588	1,092	45	4,707	3,156	49
Non-interest expense:						
Marketing	393	418	(6 )	1,236	1,180	5
Amortization of intangibles	89	106	(16 )	285	327	(13 )
Operating expenses	2,879	2,636	9	8,358	8,009	4
Total non-interest expense	3,361	3,160	6	9,879	9,516	4
Income from continuing operations before income taxes	1,512	1,648	(8 )	4,349	4,547	(4 )
Income tax provision	496	530	(6 )	1,372	1,443	(5 )
Income from continuing operations, net of tax	1,016	1,118	(9 )	2,977	3,104	(4 )
Income (loss) from discontinued operations, net of tax	(11 )	(4 )	175	(17 )	26	**
Net income	1,005	1,114	(10 )	2,960	3,130	(5 )
Dividends and undistributed earnings allocated to participating securities	(6 )	(6 )	—	(18 )	(16 )	13
Preferred stock dividends	(37 )	(29 )	28	(139 )	(90 )	54
Net income available to common stockholders	\$962	\$1,079	(11 )	\$2,803	\$3,024	(7 )
Common share statistics						
Basic earnings per common share:						
Net income from continuing operations	\$1.94	\$2.01	(3)%	\$5.50	\$5.49	—
Income (loss) from discontinued operations	(0.02 )	(0.01 )	**	(0.03 )	0.05	**
Net income per basic common share	\$1.92	\$2.00	(4 )	\$5.47	\$5.54	(1)%
Diluted earnings per common share:						
Net income from continuing operations	\$1.92	\$1.99	(4 )	\$5.45	\$5.43	—
Income (loss) from discontinued operations	(0.02 )	(0.01 )	**	(0.03 )	0.05	**
Net income per diluted common share	\$1.90	\$1.98	(4 )	\$5.42	\$5.48	(1 )
Weighted-average common shares outstanding (in millions):						
Basic	501.1	540.6	(7)%	512.0	545.5	(6)%
Diluted	505.9	546.3	(7 )	516.8	551.9	(6 )
Common shares outstanding (period-end, in millions)	489.2	534.9	(9 )	489.2	534.9	(9 )
Dividends paid per common share	\$0.40	\$0.40	—	\$1.20	\$1.10	9
Tangible book value per common share (period-end) <sup>(1)</sup>	59.00	54.66	8	59.00	54.66	8

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Balance sheet (average balances)

Loans held for investment	\$235,843	\$211,227	12%	\$231,004	\$207,608	11%
Interest-earning assets	310,987	283,082	10	304,423	279,388	9
Total assets	343,153	313,822	9	336,539	310,146	9
Interest-bearing deposits	196,913	185,800	6	195,565	184,258	6
Total deposits	222,251	210,974	5	220,864	209,334	6
Borrowings	60,708	45,070	35	56,292	44,264	27
Common equity	45,314	45,407	—	45,578	44,956	1
Total stockholders' equity	49,033	48,456	1	49,015	47,376	3

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(Dollars in millions, except per share data and as noted)	Three Months Ended			Nine Months Ended		
	September 30, 2016	2015	Change	September 30, 2016	2015	Change
Selected performance metrics						
Purchase volume <sup>(2)</sup>	\$78,106	\$69,875	12%	\$224,314	\$195,817	15%
Total net revenue margin <sup>(3)</sup>	8.31%	8.34%	(3 )bps	8.29%	8.22%	7 bps
Net interest margin <sup>(4)</sup>	6.79	6.73	6	6.76	6.62	14
Return on average assets	1.18	1.43	(25 )	1.18	1.33	(15 )
Return on average tangible assets <sup>(5)</sup>	1.24	1.50	(26 )	1.24	1.40	(16 )
Return on average common equity <sup>(6)</sup>	8.59	9.54	(95 )	8.25	8.89	(64 )
Return on average tangible common equity (“TCE” <sup>(7)</sup> )	13.06	14.33	(127)	12.54	13.46	(92 )
Equity-to-assets ratio <sup>(8)</sup>	14.29	15.44	(115)	14.56	15.28	(72 )
Non-interest expense as a percentage of average loans held for investment <sup>(9)</sup>	5.70	5.98	(28 )	5.70	6.11	(41 )
Efficiency ratio <sup>(10)</sup>	52.02	53.56	(154)	52.17	55.26	(309)
Effective income tax rate from continuing operations	32.8	32.2	60	31.5	31.7	(20 )
Net charge-offs	\$1,240	\$890	39%	\$3,573	\$2,617	37%
Net charge-off rate <sup>(11)</sup>	2.10%	1.69%	41 bps	2.06%	1.68%	38 bps
(Dollars in millions, except as noted)				September 30, 2016	December 31, 2015	Change
Balance sheet (period-end)						
Loans held for investment				\$ 238,019	\$ 229,851	4%
Interest-earning assets				313,431	302,007	4
Total assets				345,061	334,048	3
Interest-bearing deposits				200,416	191,874	4
Total deposits				225,981	217,721	4
Borrowings				59,820	59,115	1
Common equity				44,336	43,990	1
Total stockholders’ equity				48,213	47,284	2
Credit quality metrics						
Allowance for loan and lease losses				\$ 6,258	\$ 5,130	22%
Allowance as a percentage of loans held for investment (“allowance coverage ratio”)				2.63%	2.23%	40 bps
30+ day performing delinquency rate				2.71	2.69	2
30+ day delinquency rate				3.04	3.00	4
Capital ratios						
Common equity Tier 1 capital <sup>(12)</sup>				10.6%	11.1%	(50 )bps
Tier 1 capital <sup>(12)</sup>				12.0	12.4	(40 )
Total capital <sup>(12)</sup>				14.7	14.6	10
Tier 1 leverage <sup>(12)</sup>				10.1	10.6	(50 )
Tangible common equity <sup>(13)</sup>				8.8	8.9	(10 )
Supplementary leverage <sup>(12)</sup>				8.7	9.2	(50 )
Other						
Employees (period end, in thousands)				46.5	45.4	2%

(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) Includes credit card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.
- (3) Calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.
- (4) Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.

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

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- Return on average tangible common equity is a non-GAAP measure calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average TCE. Our calculation of return on average TCE may not be comparable to similarly titled measures reported by other companies. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.
- (7) Calculated based on average stockholders’ equity for the period divided by average total assets for the period.
  - (8) Calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.
  - (9) Calculated based on non-interest expense for the period divided by total net revenue for the period.
  - (10) Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.
  - (11) 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.  
Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets. See
  - (12) “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.

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EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of \$1.0 billion (\$1.90 per diluted common share) on total net revenue of \$6.5 billion and net income of \$3.0 billion (\$5.42 per diluted common share) on total net revenue of \$18.9 billion for the third quarter and first nine months of 2016, respectively. In comparison, we reported net income of \$1.1 billion (\$1.98 per diluted common share) on total net revenue of \$5.9 billion and net income of \$3.1 billion (\$5.48 per diluted common share) on total net revenue of \$17.2 billion for the third quarter and first nine months of 2015, respectively.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach including transition provisions was 10.6% and 11.1% as of September 30, 2016 and December 31, 2015, 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 of 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 third quarter of 2016, we repurchased approximately \$1.2 billion of common stock as part of the 2016 Stock Repurchase Program and expect to complete the 2016 Stock Repurchase Program by the end of the second quarter of 2017. See “MD&A—Capital Management” below for additional information.

Below are additional highlights of our performance in the third quarter and first nine months of 2016. These highlights are generally based on a comparison between the results of the third quarter and first nine months of 2016 and 2015, 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 September 30, 2016 compared to our financial condition and credit performance as of December 31, 2015. 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 decreased by \$109 million to \$1.0 billion in the third quarter of 2016, compared to the third quarter of 2015, and decreased by \$170 million to \$3.0 billion in the first nine months of 2016, compared to the first nine months of 2015. The decreases were primarily due to (i) higher provision for credit losses driven by higher charge-offs in our credit card, taxi medallion, and oil and gas lending portfolios, as well as a larger allowance build in our credit card loan portfolio; and (ii) higher operating expenses associated with loan growth and continued investments in technology and infrastructure. These higher expenses were partially offset by (i) higher interest income due to growth in our credit card and commercial loan portfolios; and (ii) higher non-interest income attributable to higher net interchange fees driven by higher purchase volume, partially offset 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.

Loans Held for Investment: Loans held for investment increased by \$8.2 billion to \$238.0 billion as of September 30, 2016 from December 31, 2015 primarily driven by growth in our auto, commercial and credit card loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio and seasonal paydowns in our credit card loan portfolio. Average loans held for investment increased by \$24.6 billion to \$235.8 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$23.4 billion to \$231.0 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily driven by continued growth in our commercial, credit card and auto loan portfolios, including loans acquired from the HFS acquisition, partially offset by the planned run-off of our acquired home loan portfolio.

Net Charge-Off and Delinquency Metrics: Our net charge-off rate increased by 41 basis points to 2.10% in the third quarter of 2016 compared to the third quarter of 2015, and increased by 38 basis points to 2.06% in the first nine months of 2016 compared to the first nine months of 2015, primarily due to growth and seasoning of recent credit card loan originations and rising losses in our taxi medallion and oil and gas lending portfolios within our Commercial Banking business. Our 30+ day delinquency rate increased by 4 basis points to 3.04% as of September 30, 2016 from December 31, 2015, primarily due to higher delinquencies resulting from recent growth and seasoning of credit card loan originations, partially offset by continued growth in our domestic card and auto loan portfolios. We provide additional information on our credit quality metrics below under “MD&A—Business Segment Financial Performance” and “MD&A—Credit Risk Profile.”

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Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by \$1.1 billion to \$6.3 billion as of September 30, 2016 from December 31, 2015, and the allowance coverage ratio increased by 40 basis points to 2.63% as of September 30, 2016 from December 31, 2015. The increases were primarily driven by (i) a higher domestic card allowance due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate; (ii) continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios in our Commercial Banking business; and (iii) continued auto loan growth and the effects of growth leading to an increased overall loss rate.

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## Business Segment Financial Performance

Table 2 summarizes our business segment results, which we report based on revenue and income from continuing operations, net of tax, for the third quarter and first nine months of 2016 and 2015. We provide information on the allocation methodologies used to derive our business segment results in “Note 20—Business Segments” in our 2015 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the United States of America (“U.S. GAAP”) results in “Note 13—Business Segments” of this Report.

Table 2: Business Segment Results

(Dollars in millions)	Three Months Ended September 30,							
	2016				2015			
	Total Net Revenue (Loss) <sup>(1)</sup>	% of Total	Net Income (Loss) <sup>(2)</sup>	% of Total	Total Net Revenue (Loss) <sup>(1)</sup>	% of Total	Net Income (Loss) <sup>(2)</sup>	% of Total
Credit Card	\$4,029	62%	\$555	54%	\$3,724	63%	\$670	60%
Consumer Banking	1,673	26	244	24	1,617	27	273	25
Commercial Banking <sup>(3)</sup>	711	11	191	19	562	10	137	12
Other <sup>(4)</sup>	48	1	26	3	(3)	—	38	3
Total	\$6,461	100%	\$1,016	100%	\$5,900	100%	\$1,118	100%

  

(Dollars in millions)	Nine Months Ended September 30,							
	2016				2015			
	Total Net Revenue (Loss) <sup>(1)</sup>	% of Total	Net Income (Loss) <sup>(2)</sup>	% of Total	Total Net Revenue (Loss) <sup>(1)</sup>	% of Total	Net Income (Loss) <sup>(2)</sup>	% of Total
Credit Card	\$11,813	62%	\$1,648	56%	\$10,684	62%	\$1,801	58%
Consumer Banking	4,898	26	750	25	4,849	28	830	27
Commercial Banking <sup>(3)</sup>	2,054	11	396	13	1,726	10	464	15
Other <sup>(4)</sup>	170	1	183	6	(40)	—	9	—
Total	\$18,935	100%	\$2,977	100%	\$17,219	100%	\$3,104	100%

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

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

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) 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 20—Business Segments” in our 2015 Form 10-K.

Credit Card: Our Credit Card business generated net income from continuing operations of \$555 million and \$1.6 billion in the third quarter and first nine months of 2016, respectively, compared to net income from continuing

operations of \$670 million and \$1.8 billion in the third quarter and first nine months of 2015, respectively. The decreases in net income were primarily due to (i) higher provision for credit losses driven by higher charge-offs due to continued loan growth and portfolio seasoning, and a larger allowance build due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate; (ii) higher operating expenses associated with loan growth as well as continuing digital investments; and (iii) 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. These drivers were partially offset by higher net interest income primarily driven by loan growth, and an increase in interchange fees driven by higher purchase volume, net of rewards expense from the continued expansion of our rewards franchise and adjustments to our customer rewards liability. Period-end loans held for investment increased by \$3.1 billion to \$99.2 billion as of September 30, 2016 from December 31, 2015, primarily due to continued loan growth in our Domestic Card business.

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**Consumer Banking:** Our Consumer Banking business generated net income from continuing operations of \$244 million and \$750 million in the third quarter and first nine months of 2016, respectively, compared to net income from continuing operations of \$273 million and \$830 million in the third quarter and first nine months of 2015, respectively. The decreases in net income were primarily attributable to (i) higher provision for credit losses primarily driven by a larger allowance build in our auto loan portfolio due to continued loan growth, as well as higher charge-offs; and (ii) higher operating expenses driven by growth in our auto loan portfolio and increased marketing expenses. These drivers were partially offset by higher revenue primarily attributable to growth in our auto loan portfolio. Period-end loans held for investment increased by \$1.9 billion to \$72.3 billion as of September 30, 2016 from December 31, 2015, driven by growth in our auto loan portfolio, partially offset by the planned run-off of our acquired home loan portfolio.

**Commercial Banking:** Our Commercial Banking business generated net income from continuing operations of \$191 million and \$396 million in the third quarter and first nine months of 2016, respectively, compared to net income from continuing operations of \$137 million and \$464 million in the third quarter and first nine months of 2015, respectively. The increase in net income in the third quarter of 2016 was primarily attributable to (i) higher revenue driven by loan growth, including loans acquired in the HFS acquisition; and (ii) lower provision for credit losses primarily driven by lower exposure reducing our reserve for unfunded lending commitments, while higher charge-offs in our taxi medallion and oil and gas lending portfolios drove a corresponding allowance reduction. These were partially offset by higher operating expenses due to costs associated with the HFS acquisition and continued growth in our Commercial Banking business. The decrease in net income in the first nine months of 2016 was primarily attributable to (i) higher provision for credit losses due to higher charge-offs and a larger allowance build, both a result of continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios; and (ii) higher operating expenses due to costs associated with the HFS acquisition and continued growth in our Commercial Banking business. These expenses were partially offset by higher net interest income driven by loan growth, including loans acquired in the HFS acquisition. Period-end loans held for investment increased by \$3.2 billion to \$66.5 billion as of September 30, 2016 from December 31, 2015, driven by growth in our commercial loan portfolios.

**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 2015 Form 10-K. Certain statements are forward-looking statements within the meaning of the Private Securities Litigation Reform Act of 1995. Actual results could differ materially from those in our forward-looking statements. Except as otherwise disclosed, forward-looking statements do not reflect (i) any change in current dividend or repurchase strategies; (ii) the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; or (iii) any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made. See “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 2015 Form 10-K for factors that could materially influence our results.

**Total Company Expectations**

We believe we are positioned to deliver attractive shareholder returns over the long term, driven by growth and sustainable returns at the higher end of banks, as well as significant capital distribution, subject to regulatory approval. We have improved efficiency by growing revenues and tightly managing costs across the company, realizing analog cost savings and other efficiency gains as we become more digital. Even with the expected significant seasonal increase in non-interest expenses in the fourth quarter, we expect that our full-year 2016 efficiency ratio, excluding adjusting items, will be substantially lower than full-year 2015. We expect that our near-term annual efficiency ratio,

excluding adjusting items, will be in the 52%, with a reasonable margin of volatility. Over the longer term, we continue to believe that we should achieve gradual efficiency improvement, driven by growth and productivity gains. Changing customer needs and preferences in our retail deposit businesses are driving changes to the function, format and number of our branches. Like many banks, we have been optimizing the format and number of our branches to better meet our evolving customer needs. Year-to-date, we have recognized approximately \$106 million of the \$160 million in expected costs for 2016. The majority of these costs appear in the “Other” category. We expect bank optimization costs to continue in 2017.

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We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. Pursuant to our approved 2016 capital plan, our board has authorized repurchases of up to \$2.5 billion of common stock through the end of the second quarter of 2017. We reduced our net share count by 17 million shares in the third quarter of 2016. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, opportunities for growth, 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 2016 charge-off rate to be around 4.15%. We expect the full-year 2017 charge-off rate will be in the mid-four percent range, with quarterly seasonal variability. Loan growth coupled with our expectations for a rising charge-off rate drove an allowance build in the current quarter, and we expect these same factors to drive allowance additions going forward. The impact of the upward pressure on delinquencies and charge-offs as new loans season and become a larger portion of our overall portfolio is expected to peak in 2016 and have a diminishing effect in 2017 and only a modest effect beyond that.

**Consumer Banking:** In our Consumer Banking business, we expect that decreasing margins and modestly rising charge-offs in the auto finance business, as well as continued planned mortgage run-off in our acquired home loan portfolio will negatively affect Consumer Banking revenues, efficiency ratio and net income, even as we continue to tightly manage costs.

**Commercial Banking:** We have experienced increases in average loans and average deposits year-over-year in our Commercial Banking business. Credit pressures continue to be focused in our oil and gas and taxi medallion lending portfolios.

### 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 2015 Form 10-K.

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

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

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them, as necessary, based on changing conditions. Management has discussed our critical accounting policies and estimates with the Audit Committee of the Board of Directors. There have been no changes to our critical accounting policies and estimates since the 2015 Form 10-K.

We provide additional information on our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2015 Form 10-K.

### ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted in 2016, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these changes in accounting standards.



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**CONSOLIDATED RESULTS OF OPERATIONS**

The section below provides a comparative discussion of our consolidated financial performance for the third quarter and first nine months of 2016 and 2015. Following this section, we provide a discussion of our business segment results. 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 and interest-bearing liabilities include interest-bearing deposits, securitized debt obligations, senior and subordinated notes, and other borrowings. Generally, we include in interest income any past due fees on loans that we deem collectible. Our net interest margin, based on our consolidated results, represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest-bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

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Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for the third quarter and first nine months of 2016 and 2015.

Table 3: Average Balances, Net Interest Income and Net Interest Margin

(Dollars in millions)	Three Months Ended September 30,			2015		
	2016			2015		
	Average Balance	Interest Income/ Expense <sup>(1)(2)</sup>	Average Yield/ Rate <sup>(2)</sup>	Average Balance	Interest Income/ Expense <sup>(1)(2)</sup>	Average Yield/ Rate <sup>(2)</sup>
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	\$89,754	\$ 3,302	14.72%	\$80,678	\$ 2,884	14.30%
International credit card	8,252	296	14.35	8,048	299	14.86
Total credit card	98,006	3,598	14.68	88,726	3,183	14.35
Consumer banking	71,957	1,150	6.39	71,374	1,113	6.24
Commercial banking <sup>(3)</sup>	67,028	584	3.49	51,879	416	3.21
Other	76	51	268.42	97	41	169.07
Total loans, including loans held for sale	237,067	5,383	9.08	212,076	4,753	8.96
Investment securities	66,291	386	2.33	63,541	386	2.43
Cash equivalents and other interest-earning assets	7,629	25	1.31	7,465	25	1.34
Total interest-earning assets	310,987	5,794	7.45	283,082	\$ 5,164	7.30
Cash and due from banks	3,182			2,907		
Allowance for loan and lease losses	(5,883 )			(4,671 )		
Premises and equipment, net	3,655			3,698		
Other assets	31,212			28,806		
Total assets	\$343,153			\$313,822		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$196,913	\$ 306	0.62	\$185,800	\$ 271	0.58
Securitized debt obligations	17,389	56	1.29	14,881	39	1.05
Senior and subordinated notes	22,342	121	2.17	20,806	82	1.58
Other borrowings and liabilities	21,840	34	0.62	10,114	12	0.47
Total interest-bearing liabilities	258,484	517	0.80	\$231,601	\$ 404	0.70
Non-interest-bearing deposits	25,338			25,174		
Other liabilities	10,298			8,591		
Total liabilities	294,120			265,366		
Stockholders' equity	49,033			48,456		
Total liabilities and stockholders' equity	\$343,153			\$313,822		
Net interest income/spread		\$ 5,277	6.65		\$ 4,760	6.60
Impact of non-interest-bearing funding			0.14			0.13
Net interest margin			6.79%			6.73 %



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(Dollars in millions)	Nine Months Ended September 30, 2016			2015		
	Average Balance	Interest Income/ Expense <sup>(1)(2)</sup>	Average Yield/ Rate <sup>(2)</sup>	Average Balance	Interest Income/ Expense <sup>(1)(2)</sup>	Average Yield/ Rate <sup>(2)</sup>
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	\$87,026	\$ 9,468	14.51%	\$77,235	\$ 8,191	14.14%
International credit card	8,164	943	15.40	7,946	876	14.70
Total credit card	95,190	10,411	14.58	85,181	9,067	14.19
Consumer banking	71,192	3,354	6.28	71,528	3,354	6.25
Commercial banking <sup>(3)</sup>	65,600	1,691	3.44	51,631	1,250	3.23
Other	82	160	260.16	104	153	196.15
Total loans, including loans held for sale	232,064	15,616	8.97	208,444	13,824	8.84
Investment securities	65,735	1,206	2.45	63,500	1,174	2.47
Cash equivalents and other interest-earning assets	6,624	60	1.21	7,444	77	1.38
Total interest-earning assets	304,423	16,882	7.39	279,388	15,075	7.19
Cash and due from banks	3,222			2,928		
Allowance for loan and lease losses	(5,481 )			(4,485 )		
Premises and equipment, net	3,647			3,704		
Other assets	30,728			28,611		
Total assets	\$336,539			\$310,146		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$195,565	\$ 881	0.60	\$184,258	\$ 814	0.59
Securitized debt obligations	15,997	151	1.26	13,233	108	1.09
Senior and subordinated notes	22,019	338	2.05	20,580	241	1.56
Other borrowings and liabilities	19,099	86	0.60	11,214	39	0.46
Total interest-bearing liabilities	252,680	1,456	0.77	229,285	1,202	0.70
Non-interest-bearing deposits	25,299			25,076		
Other liabilities	9,545			8,409		
Total liabilities	287,524			262,770		
Stockholders' equity	49,015			47,376		
Total liabilities and stockholders' equity	\$336,539			\$310,146		
Net interest income/spread		\$ 15,426	6.62		\$ 13,873	6.49
Impact of non-interest-bearing funding			0.14			0.13
Net interest margin			6.76%			6.62 %

(1) Past due fees included in interest income totaled approximately \$390 million and \$1.1 billion in the third quarter and first nine months of 2016, respectively, and \$373 million and \$1.1 billion in the third quarter and first nine months of 2015, respectively.

(2) 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.

(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 rate of 35% with offsetting reclassifications to the Other category.

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Net interest income increased by \$517 million to \$5.3 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$1.6 billion to \$15.4 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily driven by growth in our credit card and commercial loan portfolios, including loans acquired from the HFS acquisition. Net interest margin increased by 6 basis points to 6.79% in the third quarter of 2016 and increased by 14 basis points to 6.76% in the first nine months of 2016, primarily driven by continued growth in our credit card loan portfolio and the planned run-off of our acquired home loan portfolio in our Consumer Banking business, partially offset by (i) the impact of loans acquired from the HFS acquisition in our Commercial Banking business, which generally have lower net interest margins compared to our total company portfolio and (ii) margin compression in our auto loan portfolio.

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

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

(Dollars in millions)	Three Months Ended September 30, 2016 vs. 2015			Nine Months Ended September 30, 2016 vs. 2015		
	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	\$415	\$ 339	\$76	\$1,344	\$1,089	\$255
Consumer banking	37	9	28	—	(16)	16
Commercial banking <sup>(2)</sup>	168	129	39	441	355	86
Other	10	(9)	19	7	(32)	39
Total loans, including loans held for sale	630	468	162	1,792	1,396	396
Investment securities	—	16	(16)	32	41	(9)
Cash equivalents and other interest-earning assets	—	1	(1)	(17)	(8)	(9)
Total interest income	630	485	145	1,807	1,429	378
Interest expense:						
Deposits	35	17	18	67	51	16
Securitized debt obligations	17	7	10	43	24	19
Senior and subordinated notes	39	6	33	97	18	79
Other borrowings and liabilities	22	17	5	47	32	15
Total interest expense	113	47	66	254	125	129
Net interest income	\$517	\$ 438	\$79	\$1,553	\$1,304	\$249

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 from the sale of investment securities, gains and losses on derivatives not accounted for in hedge accounting relationships and hedge ineffectiveness.

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Table 5 displays the components of non-interest income for the third quarter and first nine months of 2016 and 2015.  
Table 5: Non-Interest Income

(Dollars in millions)	Three Months		Nine Months	
	Ended September 30, 2016	2015	Ended September 30, 2016	2015
Interchange fees, net	\$603	\$555	\$1,815	\$1,618
Service charges and other customer-related fees	387	423	1,162	1,289
Net other-than-temporary impairment recognized in earnings	—	(5)	(10)	(27)
Other non-interest income:				
Benefit (provision) for mortgage representation and warranty losses <sup>(1)</sup>	—	7	2	15
Net gains (losses) from the sale of investment securities	1	3	3	4
Net fair value gains (losses) on free-standing derivatives	39	25	91	47
Other	154	132	446	400
Total other non-interest income	194	167	542	466
Total non-interest income	\$1,184	\$1,140	\$3,509	\$3,346

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

Non-interest income increased by \$44 million to \$1.2 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$163 million to \$3.5 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily driven by an increase in interchange fees driven by higher purchase volume in our Credit Card business, net of rewards expense from the continued expansion of our rewards franchise and adjustments to our customer rewards liability, partially offset 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.

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 \$1.6 billion and \$4.7 billion in the third quarter and first nine months of 2016, respectively, compared to \$1.1 billion and \$3.2 billion in the third quarter and first nine months of 2015, respectively. The provision for credit losses as a percentage of net interest income was 30.1% and 30.5% in the third quarter and first nine months of 2016, respectively, compared to 22.9% and 22.7% in the third quarter and first nine months of 2015, respectively.

The increase in the provision for credit losses in the third quarter of 2016 compared to the third quarter of 2015 was primarily driven by higher charge-offs as well as a larger allowance build in our credit card loan portfolio due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate. The increase in provision in the first nine months of 2016 compared to the first nine months of 2015 was primarily driven by (i) higher charge-offs as well as a larger allowance build in our credit card loan portfolio due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate; and (ii) higher charge-offs and a larger allowance build in our commercial loan portfolio as a result of continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios.

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—Summary of Allowance for Loan and Lease Losses,” “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 2015 Form 10-K.

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## Non-Interest Expense

Non-interest expense consists of ongoing operating expenses, 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.

Table 6 displays the components of non-interest expense for the third quarter and first nine months of 2016 and 2015.

Table 6: Non-Interest Expense

	Three Months		Nine Months	
	Ended		Ended	
(Dollars in millions)	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Salaries and associate benefits	\$1,317	\$1,189	\$3,866	\$3,760
Occupancy and equipment	499	444	1,422	1,318
Marketing	393	418	1,236	1,180
Professional services	296	313	878	943
Communications and data processing	252	226	757	636
Amortization of intangibles	89	106	285	327
Other non-interest expense:				
Collections	76	79	234	249
Fraud losses	77	76	256	217
Bankcard, regulatory and other fee assessments	163	113	399	330
Other	199	196	546	556
Total other non-interest expense	515	464	1,435	1,352
Total non-interest expense	\$3,361	\$3,160	\$9,879	\$9,516

Non-interest expense increased by \$201 million to \$3.4 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$363 million to \$9.9 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily due to higher operating expenses associated with loan growth and continued investments in technology and infrastructure, as well as higher Federal Deposit Insurance Corporation (“FDIC”) surcharges and premiums.

## 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 and \$17 million in the third quarter and first nine months of 2016, respectively, compared to loss of \$4 million and income of \$26 million in the third quarter and first nine months of 2015, respectively. We recorded a provision net of tax for mortgage representation and warranty reserve of \$11 million (\$18 million before tax) and \$14 million (\$23 million before tax) in the third quarter and first nine months of 2016, respectively, compared to a provision net of tax of \$2 million (\$3 million before tax) and a benefit net of tax of \$27 million (\$43 million before tax) in the third quarter and first nine months of 2015, respectively.

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.”

## Income Taxes

We recorded income tax provisions of \$496 million (32.8% effective income tax rate) and \$1.4 billion (31.5% effective income tax rate) in the third quarter and first nine months of 2016, respectively, compared to \$530 million (32.2% effective income tax rate) and \$1.4 billion (31.7% effective income tax rate) in the third quarter and first nine months of 2015, 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.

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The increase in our effective income tax rate in the third quarter of 2016, compared to the third quarter of 2015, was primarily due to a reduced benefit of lower taxed foreign earnings and an increase in discrete tax expense, partially offset by an increased relative benefit of tax exempt income and tax credits. The decrease in our effective income tax rate in the first nine months of 2016, compared to the first nine months of 2015, was primarily due to an increased relative benefit of tax exempt income and tax credits, largely offset by a reduced benefit of lower taxed foreign earnings and an increase in discrete tax expense.

We provide additional information on items affecting our income taxes and effective tax rate under “Note 18—Income Taxes” in our 2015 Form 10-K.

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**BUSINESS SEGMENT FINANCIAL PERFORMANCE**

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

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 20—Business Segments” in our 2015 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 third quarter and first nine months of 2016 and 2015 and provide a comparative discussion of these results. We also discuss changes in our financial condition and credit performance metrics as of September 30, 2016, compared to December 31, 2015. We provide a reconciliation of our total business segment results to our reported consolidated results in “Note 13—Business Segments.” Additionally, we provide information on the outlook for each of our business segments as described above under “MD&A—Executive Summary and Business Outlook.”

**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 \$555 million and \$1.6 billion in the third quarter and first nine months of 2016, respectively, and \$670 million and \$1.8 billion in the third quarter and first nine months of 2015, respectively.

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

Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Selected income statement data:						
Net interest income	\$3,204	\$ 2,866	12%	\$9,282	\$8,165	14%
Non-interest income	825	858	(4 )	2,531	2,519	—
Total net revenue <sup>(1)</sup>	4,029	3,724	8	11,813	10,684	11
Provision (benefit) for credit losses	1,272	831	53	3,604	2,395	50
Non-interest expense	1,884	1,848	2	5,630	5,481	3
Income (loss) from continuing operations before income taxes	873	1,045	(16 )	2,579	2,808	(8 )
Income tax provision (benefit)	318	375	(15 )	931	1,007	(8 )
Income (loss) from continuing operations, net of tax	\$555	\$ 670	(17 )	\$1,648	\$1,801	(8 )
Selected performance metrics:						
Average loans held for investment <sup>(2)</sup>	\$98,016	\$ 88,450	11	\$95,139	\$84,999	12
Average yield on loans held for investment <sup>(3)</sup>	14.68%	14.39%	29 bps	14.59%	14.22%	37 bps
Total net revenue margin <sup>(4)</sup>	16.44	16.84	(40 )	16.56	16.76	(20 )
Net charge-offs	\$906	\$ 655	38%	\$2,805	\$2,077	35%
Net charge-off rate	3.70%	2.96%	74 bps	3.93%	3.26%	67 bps
Purchased credit card relationship (“PCCR”) intangible amortization	\$62	\$ 78	(21)%	\$199	\$242	(18)%
Purchase volume <sup>(5)</sup>	78,106	69,875	12	224,314	195,817	15
(Dollars in millions)	September 30,		December 31,			
	2016	2015	Change			
Selected period-end data:						
Loans held for investment <sup>(2)</sup>	\$99,201	\$ 96,125	3%			
30+ day performing delinquency rate	3.65%	3.36%	29 bps			
30+ day delinquency rate	3.69	3.40	29			
Nonperforming loan rate	0.04	0.06	(2 )			
Allowance for loan and lease losses	\$4,445	\$ 3,654	22%			
Allowance coverage ratio <sup>(6)</sup>	4.48%	3.80%	68 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 \$289 million and \$761 million in the third quarter and first nine months of 2016, respectively, and by \$195 million and \$510 million in the third quarter and first nine months of 2015, respectively, for the estimated uncollectible amount of billed finance charges and fees and related losses. The finance charge and fee reserve totaled \$365 million and \$262 million as of September 30, 2016 and December 31, 2015, respectively.

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

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance

sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

- (4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Interest income also includes interest income on loans held for sale.
- (5) 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) 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 third quarter and first nine months of 2016, compared to the third quarter and first nine months of 2015, and changes in financial condition and credit performance between September 30, 2016 and December 31, 2015 include the following:

- Net Interest Income: Net interest income increased by \$338 million to \$3.2 billion in the third quarter of 2016, and increased by \$1.1 billion to \$9.3 billion in the first nine months of 2016, primarily driven by loan growth in our Domestic Card business.

Non-Interest Income: Non-interest income was slightly lower at \$825 million and was substantially flat at \$2.5 billion in the third quarter of 2016 and the first nine months of 2016, respectively, as an increase in interchange fees driven by higher purchase volume was largely offset by (i) higher rewards expense from the continued expansion of our rewards franchise and adjustments to our customer rewards liability; and (ii) 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.

Provision for Credit Losses: The provision for credit losses increased by \$441 million to \$1.3 billion in the third quarter of 2016, and increased by \$1.2 billion to \$3.6 billion in the first nine months of 2016, primarily driven by higher charge-offs due to continued loan growth and portfolio seasoning, and a larger allowance build due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate.

Non-Interest Expense: Non-interest expense increased by \$36 million to \$1.9 billion in the third quarter of 2016, and increased by \$149 million to \$5.6 billion in the first nine months of 2016. The increase in the third quarter of 2016 was primarily attributable to higher operating expenses associated with loan growth as well as continuing digital investments, partially offset by operating efficiencies and lower marketing expenses. The increase in the first nine months of 2016 was primarily attributable to higher operating expenses associated with loan growth as well as continuing digital investments, partially offset by operating efficiencies and smaller builds in our U.K. Payment Protection Insurance Reserve (“PPI”) recorded in the first nine months of 2016 compared to the first nine months of 2015.

Loans Held for Investment: Period-end loans held for investment increased by \$3.1 billion to \$99.2 billion as of September 30, 2016 from December 31, 2015, primarily due to continued loan growth in our Domestic Card business, net of expected seasonal paydowns. Average loans held for investment increased by \$9.6 billion to \$98.0 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$10.1 billion to \$95.1 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily due to growth across our domestic and international card loan portfolios, partially offset by the impact of foreign exchange rates in our international card loan portfolio driven by the strengthening of the U.S. dollar in the first nine months of 2016.

Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 74 basis points to 3.70% in the third quarter of 2016 compared to the third quarter of 2015, and increased by 67 basis points to 3.93% in the first nine months of 2016 compared to the first nine months of 2015, due to the seasoning of our domestic card portfolio growth. The 30+ day delinquency rate increased by 29 basis points to 3.69% as of September 30, 2016 from December 31, 2015 due to seasoning of our domestic card portfolio growth.

#### Domestic Card Business

Domestic Card generated net income from continuing operations of \$527 million and \$1.6 billion in the third quarter and first nine months of 2016, respectively, compared to net income from continuing operations of \$639 million and \$1.7 billion in the third quarter and first nine months of 2015, respectively. Over the third quarter and first nine months of 2016 as well as the third quarter and first nine months of 2015, Domestic Card accounted for greater than 90% of total net revenues of our Credit Card business, and greater than 90% of net income of our Credit Card business.

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

Table 7.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Selected income statement data:						
Net interest income	\$2,956	\$ 2,613	13%	\$8,481	\$7,429	14%
Non-interest income	759	814	(7 )	2,325	2,353	(1 )
Total net revenue <sup>(1)</sup>	3,715	3,427	8	10,806	9,782	10
Provision (benefit) for credit losses	1,190	796	49	3,326	2,259	47
Non-interest expense	1,696	1,630	4	5,036	4,831	4
Income (loss) from continuing operations before income taxes	829	1,001	(17 )	2,444	2,692	(9 )
Income tax provision (benefit)	302	362	(17 )	890	974	(9 )
Income (loss) from continuing operations, net of tax	\$527	\$ 639	(18 )	\$1,554	\$1,718	(10 )
Selected performance metrics:						
Average loans held for investment <sup>(2)</sup>	\$89,763	\$ 80,402	12	\$86,974	\$77,053	13
Average yield on loans held for investment <sup>(3)</sup>	14.71%	14.35%	36 bps	14.51%	14.17%	34 bps
Total net revenue margin <sup>(4)</sup>	16.55	17.05	(50 )	16.57	16.93	(36 )
Net charge-offs	\$841	\$ 619	36%	\$2,602	\$1,933	35%
Net charge-off rate	3.74%	3.08%	66 bps	3.99%	3.35%	64 bps
PCCR intangible amortization	\$62	\$ 78	(21)%	\$199	\$242	(18)%
Purchase volume <sup>(5)</sup>	71,331	63,777	12	204,998	178,000	15
(Dollars in millions)	September 30,		December 31,			
	2016	2015	Change			
Selected period-end data:						
Loans held for investment <sup>(2)</sup>	\$90,955	\$ 87,939	3%			
30+ day delinquency rate	3.68%	3.39%	29 bps			
Allowance for loan and lease losses	\$4,079	\$ 3,355	22%			
Allowance coverage ratio <sup>(6)</sup>	4.49%	3.82%	67 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.

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

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

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

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

(5) 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 decreased in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015, primarily driven by higher provision for credit losses and higher operating expenses associated with continued loan growth, partially offset by higher net interest income resulting from loan growth.

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## International Card Business

International Card generated net income from continuing operations of \$28 million and \$94 million in the third quarter and first nine months of 2016, respectively, compared to net income from continuing operations of \$31 million and \$83 million in the third quarter and first nine months of 2015, respectively. Net income was substantially flat in the third quarter of 2016 as lower operating and marketing expenses as well as a smaller build in our U.K. PPI Reserve in the third quarter of 2016 were offset by (i) an increase in the provision for credit losses due to higher charge-offs and an allowance build in the third quarter of 2016 compared to an allowance release in the third quarter of 2015; and (ii) the impact of foreign exchange rates driven by strengthening of the U.S. dollar. The increase in net income over the first nine months of 2016 was primarily attributable to (i) higher net interest income resulting from loan growth and higher loan yield due to changes in the product mix of the portfolio; (ii) smaller builds in our U.K. PPI Reserve in the first nine months of 2016 compared to the first nine months of 2015, which impacted both revenue and non-interest expense; and (iii) 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 drivers were partially offset by (i) higher provision for credit losses due to higher charge-offs and an allowance build during the first nine months of 2016 compared to an allowance release in the first nine months of 2015; and (ii) the impact of foreign exchange rates driven by strengthening of the U.S. dollar in the first nine months of 2016.

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

Table 7.2: International Card Business Results

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2016	September 30, 2015	Change	September 30, 2016	September 30, 2015	Change
Selected income statement data:						
Net interest income	\$248	\$ 253	(2)%	\$801	\$736	9%
Non-interest income	66	44	50	206	166	24
Total net revenue	314	297	6	1,007	902	12
Provision (benefit) for credit losses	82	35	134	278	136	104
Non-interest expense	188	218	(14 )	594	650	(9 )
Income (loss) from continuing operations before income taxes	44	44	—	135	116	16
Income tax provision (benefit)	16	13	23	41	33	24
Income (loss) from continuing operations, net of tax	\$28	\$ 31	(10 )	\$94	\$83	13
Selected performance metrics:						
Average loans held for investment <sup>(1)</sup>	\$8,253	\$ 8,048	3	\$8,165	\$7,946	3
Average yield on loans held for investment <sup>(2)</sup>	14.36%	14.88%	(52 ) bps	15.41%	14.70%	71 bps
Total net revenue margin <sup>(3)</sup>	15.24	14.77	47	16.45	15.14	131
Net charge-offs	\$65	\$ 36	81%	\$203	\$144	41%
Net charge-off rate	3.18%	1.80%	138 bps	3.32%	2.41%	91 bps
Purchase volume <sup>(4)</sup>	\$6,775	\$ 6,098	11%	\$19,316	\$17,817	8%
(Dollars in millions)	September 30, 2016		December 31, 2015	Change		
Selected period-end data:						
Loans held for investment <sup>(1)</sup>	\$8,246	\$ 8,186	1%			
30+ day performing delinquency rate	3.33%	2.98%	35 bps			
30+ day delinquency rate	3.74	3.46	28			
Nonperforming loan rate	0.53	0.65	(12 )			
Allowance for loan and lease losses	\$366	\$ 299	22%			



Allowance coverage ratio<sup>(5)</sup> 4.44% 3.66% 78 bps

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

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- 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) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period.
- (4) Consists of international card purchase transactions, net of returns for the period. Excludes cash advance and balance transfer transactions.
- (5) Calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

**Consumer Banking Business**

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

Our Consumer Banking business generated net income from continuing operations of \$244 million and \$750 million in the third quarter and first nine months of 2016, respectively, and \$273 million and \$830 million in the third quarter and first nine months of 2015, respectively.

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

Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended			Nine Months Ended		
	September 30, 2016	2015	Change	September 30, 2016	2015	Change
Selected income statement data:						
Net interest income	\$1,472	\$1,443	2%	\$4,331	\$4,321	—
Non-interest income	201	174	16	567	528	7%
Total net revenue	1,673	1,617	3	4,898	4,849	1
Provision (benefit) for credit losses	256	188	36	690	579	19
Non-interest expense	1,034	1,001	3	3,030	2,969	2
Income (loss) from continuing operations before income taxes	383	428	(11 )	1,178	1,301	(9 )
Income tax provision (benefit)	139	155	(10 )	428	471	(9 )
Income (loss) from continuing operations, net of tax	\$244	\$273	(11 )	\$750	\$830	(10 )
Selected performance metrics:						
Average loans held for investment: <sup>(1)</sup>						
Auto	\$45,355	\$40,560	12	\$43,647	\$39,505	10
Home loan	22,852	26,934	(15 )	23,819	28,217	(16 )
Retail banking	3,520	3,603	(2 )	3,540	3,578	(1 )
Total consumer banking	\$71,727	\$71,097	1	\$71,006	\$71,300	—
Average yield on loans held for investment <sup>(2)</sup>	6.41%	6.25	% 16 bps	6.29%	6.26%	3 bps
Average deposits	\$177,402	\$170,816	4%	\$176,159	\$170,500	3%
Average deposit interest rate	0.56%	0.56	% —	0.55%	0.57%	(2 )bps
Net charge-offs	\$227	\$203	12%	\$556	\$498	12%
Net charge-off rate	1.26%	1.14%	12 bps	1.04%	0.93%	11 bps
Net charge-off rate (excluding PCI loans) <sup>(3)</sup>	1.62	1.58	4	1.37	1.33	4
Auto loan originations	\$6,804	\$5,590	22%	\$19,177	\$16,208	18%

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(Dollars in millions)	September 30, 2016	December 31, 2015	Change
Selected period-end data:			
Loans held for investment: <sup>(1)</sup>			
Auto	\$ 46,311	\$ 41,549	11%
Home loan	22,448	25,227	(11 )
Retail banking	3,526	3,596	(2 )
Total consumer banking	\$ 72,285	\$ 70,372	3
30+ day performing delinquency rate	3.72%	4.05%	(33 )bps
30+ day performing delinquency rate (excluding PCI loans) <sup>(3)</sup>	4.74	5.50	(76 )
30+ day delinquency rate	4.26	4.67	(41 )
30+ day delinquency rate (excluding PCI loans) <sup>(3)</sup>	5.42	6.34	(92 )
Nonperforming loan rate	0.71	0.79	(8 )
Nonperforming loan rate (excluding PCI loans) <sup>(3)</sup>	0.90	1.08	(18 )
Nonperforming asset rate <sup>(4)</sup>	0.98	1.10	(12 )
Nonperforming asset rate (excluding PCI loans) <sup>(3)(4)</sup>	1.25	1.50	(25 )
Allowance for loan and lease losses	\$ 1,003	\$ 868	16%
Allowance coverage ratio <sup>(5)(6)</sup>	1.39%	1.23%	16 bps
Deposits	\$ 178,793	\$ 172,702	4%
Loans serviced for others	8,018	7,530	6

The period-end consumer banking loans held for investment includes purchased credit-impaired loans (“PCI loans”) with carrying values of \$15.5 billion and \$18.6 billion as of September 30, 2016 and December 31, 2015, respectively. The average balance of consumer banking loans held for investment includes PCI loans of \$15.9 billion and \$20.0 billion in the third quarter of 2016 and 2015, respectively, and \$16.9 billion and \$21.3 billion in the first nine months of 2016 and 2015, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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.

See “MD&A—Credit Risk Profile” and “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K for additional information on the impact of PCI loans on our credit quality metrics.

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

Calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

Excluding the impact of PCI home loans, the coverage ratios for our home loan portfolio and total consumer

banking were 0.48% and 1.72%, respectively, as of September 30, 2016, compared to 0.50% and 1.60%, respectively, as of December 31, 2015.

Key factors affecting the results of our Consumer Banking business for the third quarter and first nine months of 2016, compared to the third quarter and first nine months of 2015, and changes in financial condition and credit performance between September 30, 2016 and December 31, 2015 include the following:

Net Interest Income: Net interest income increased by \$29 million to \$1.5 billion in the third quarter of 2016 and was substantially flat at \$4.3 billion in the first nine months of 2016 as growth in our auto loan portfolio was largely offset by the planned run-off of our acquired home loan portfolio and margin compression in our auto loan portfolio.

Consumer Banking loan yield increased by 16 basis points to 6.4% and increased by 3 basis points to 6.3% in the third quarter and first nine months of 2016, respectively, compared to the third quarter and first nine months of 2015. The increases were primarily driven by changes in the product mix in Consumer Banking as a result of the planned run-off of our acquired home loan portfolio and growth in our auto loan portfolio, partially offset by declining yield in our auto loan portfolio. Average yield on auto loans decreased by 26 basis points and 39 basis points to 7.7% in the third quarter and first nine months of 2016, respectively. These decreases were primarily attributable to (i) a higher proportion of prime auto loans in the third quarter and first nine months of 2016 compared to the third quarter and first nine months of 2015; and (ii) continued competition that drove margin compression across the auto business. The average yield on the home loan portfolio increased by 22 basis points to 4.0% and increased by 3 basis points to 3.9% in the third quarter and first nine months of 2016, respectively.

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**Non-Interest Income:** Non-interest income increased by \$27 million to \$201 million in the third quarter of 2016, primarily attributable to an increase in mortgage banking revenue. Non-interest income increased by \$39 million to \$567 million in the first nine months of 2016, primarily due to customer rewards liability releases in the first nine months of 2016 within the retail banking business related to the discontinuation of certain debit card and deposit products.

**Provision for Credit Losses:** The provision for credit losses increased by \$68 million to \$256 million in the third quarter of 2016, and increased by \$111 million to \$690 million in the first nine months of 2016, primarily driven by a larger allowance build in our auto loan portfolio due to continued loan growth, as well as higher charge-offs.

**Non-Interest Expense:** Non-interest expense increased by \$33 million to \$1.0 billion in the third quarter of 2016, and increased by \$61 million to \$3.0 billion in the first nine months of 2016, primarily due to higher operating expenses driven by growth in our auto loan portfolio and increased marketing expenses.

**Loans Held for Investment:** Period-end loans held for investment increased by \$1.9 billion to \$72.3 billion as of September 30, 2016 from December 31, 2015, primarily due to growth in our auto loan portfolio, partially offset by the planned run-off of our acquired home loan portfolio. Average loans held for investment increased by \$630 million to \$71.7 billion in the third quarter of 2016 compared to the third quarter of 2015 primarily due to growth in our auto loan portfolio, partially offset by the planned run-off of our acquired home loan portfolio. Average loans held for investment decreased by \$294 million to \$71.0 billion in the first nine months of 2016 compared to the first nine months of 2015 primarily due to the planned run-off of our acquired home loan portfolio, partially offset by growth in our auto loan portfolio.

**Deposits:** Period-end deposits increased by \$6.1 billion to \$178.8 billion as of September 30, 2016 from December 31, 2015, as a result of our continued focus on deposit relationships with existing customers and our ability to attract new customers.

**Net Charge-Off and Delinquency Metrics:** The net charge-off rate increased by 12 basis points to 1.26% in the third quarter of 2016 compared to the third quarter of 2015, and increased by 11 basis points to 1.04% in the first nine months of 2016 compared to the first nine months of 2015. The increases in the net charge-off rate reflect the 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 41 basis points to 4.26% as of September 30, 2016 from December 31, 2015, 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 \$191 million and \$396 million in the third quarter and first nine months of 2016, respectively, and \$137 million and \$464 million in the third quarter and first nine months of 2015, respectively. Table 9 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

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Table 9: Commercial Banking Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Selected income statement data:						
Net interest income	\$555	\$ 454	22%	\$1,651	\$1,381	20%
Non-interest income	156	108	44	403	345	17
Total net revenue <sup>(1)</sup>	711	562	27	2,054	1,726	19
Provision (benefit) for credit losses <sup>(2)</sup>	61	75	(19 )	417	184	127
Non-interest expense	349	272	28	1,014	814	25
Income (loss) from continuing operations before income taxes	301	215	40	623	728	(14 )
Income tax provision (benefit)	110	78	41	227	264	(14 )
Income (loss) from continuing operations, net of tax	\$191	\$ 137	39	\$396	\$464	(15 )
Selected performance metrics:						
Average loans held for investment: <sup>(3)</sup>						
Commercial and multifamily real estate	\$26,154	\$ 23,305	12	\$25,612	\$23,092	11
Commercial and industrial	39,346	27,620	42	38,610	27,411	41
Total commercial lending	65,500	50,925	29	64,222	50,503	27
Small-ticket commercial real estate	534	667	(20 )	565	712	(21 )
Total commercial banking	\$66,034	\$ 51,592	28	\$64,787	\$51,215	27
Average yield on loans held for investment <sup>(1)(4)</sup>	3.50%	3.21	% 29	bps 3.45%	3.23%	22 bps
Average deposits	\$33,498	\$ 32,806	2%	\$33,778	\$32,809	3%
Average deposit interest rate	0.30%	0.25%	5 bps	0.28%	0.25%	3 bps
Net charge-offs	\$108	\$ 33	**	\$214	\$43	**
Net charge-off rate	0.66%	0.26%	40 bps	0.44%	0.11%	33 bps
(Dollars in millions)	September 30,		Change	December 31,		Change
	2016	2015		2016	2015	
Selected period-end data:						
Loans held for investment: <sup>(3)</sup>						
Commercial and multifamily real estate	\$26,507	\$ 25,518	4%			
Commercial and industrial	39,432	37,135	6			
Total commercial lending	65,939	62,653	5			
Small-ticket commercial real estate	518	613	(15 )			
Total commercial banking	\$66,457	\$ 63,266	5			
Nonperforming loan rate	1.50%	0.87%	63 bps			
Nonperforming asset rate <sup>(5)</sup>	1.51	0.87	64			
Allowance for loan and lease losses <sup>(2)</sup>	\$808	\$ 604	34%			
Allowance coverage ratio <sup>(6)</sup>	1.22%	0.95%	27 bps			
Deposits	\$33,611	\$ 34,257	(2 )			
Loans serviced for others <sup>(7)</sup>	20,957	17,643	19%			

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.

(1)

(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 \$126 million and \$161 million as of September 30, 2016 and December 31, 2015, respectively.

The period-end commercial banking loans held for investment include PCI loans with carrying value of \$654 million and \$958 million as of September 30, 2016 and December 31, 2015, respectively. The average balance of <sup>(3)</sup> commercial banking loans held for investment includes PCI loans of \$672 million and \$133 million in the third quarter of 2016 and 2015, respectively, and \$813 million and \$153 million in the first nine months of 2016 and 2015, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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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.

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

Calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

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

\*\*Change is not meaningful.

Key factors affecting the results of our Commercial Banking business for the third quarter and first nine months of 2016, compared to the third quarter and first nine months of 2015, and changes in financial condition and credit performance between September 30, 2016 and December 31, 2015 include the following:

**Net Interest Income:** Net interest income increased by \$101 million to \$555 million in the third quarter of 2016, and increased by \$270 million to \$1.7 billion in the first nine months of 2016, primarily driven by loan growth, including loans acquired in the HFS acquisition.

**Non-Interest Income:** Non-interest income increased by \$48 million to \$156 million in the third quarter of 2016, and increased by \$58 million to \$403 million in the first nine months of 2016, primarily driven by fee-based services and products attributable to our multifamily finance business.

**Provision for Credit Losses:** The provision for credit losses decreased by \$14 million to \$61 million in the third quarter of 2016, primarily driven by lower exposure reducing our reserve for unfunded lending commitments, while higher charge-offs in our taxi medallion and oil and gas lending portfolios drove a corresponding allowance reduction. The provision for credit losses increased by \$233 million to \$417 million in the first nine months of 2016, primarily driven by higher charge-offs and a larger allowance build, both primarily due to continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios.

**Non-Interest Expense:** Non-interest expense increased by \$77 million to \$349 million in the third quarter of 2016, and increased by \$200 million to \$1.0 billion in the first nine months of 2016, driven by higher operating expenses due to costs associated with the HFS acquisition and continued growth in our Commercial Banking business.

**Loans Held for Investment:** Period-end loans held for investment increased by \$3.2 billion to \$66.5 billion as of September 30, 2016 from December 31, 2015 driven by growth in our commercial loan portfolios. Average loans held for investment increased by \$14.4 billion to \$66.0 billion in the third quarter of 2016 compared to the third quarter of 2015, and increased by \$13.6 billion to \$64.8 billion in the first nine months of 2016 compared to the first nine months of 2015, primarily driven by the HFS acquisition and growth in our commercial loan portfolios.

**Deposits:** Period-end deposits decreased by \$646 million to \$33.6 billion as of September 30, 2016 from December 31, 2015.

**Net Charge-Off and Nonperforming Metrics:** The net charge-off rate increased by 40 basis points to 0.66% in the third quarter of 2016 compared to the third quarter of 2015, and increased by 33 basis points to 0.44% in the first nine months of 2016 compared to the first nine months of 2015, reflecting rising losses in our taxi medallion and oil and gas lending portfolios. Increased credit risk rating downgrades in these same lending portfolios resulted in the nonperforming loan rate increasing by 63 basis points to 1.50% as of September 30, 2016 from December 31, 2015.

**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 (i) foreign exchange-rate fluctuations on foreign currency-denominated balances; (ii) 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; (iii) a portion of the net benefit (provision) for representation and warranty



losses related to continuing operations; and (iv) offsets related to certain line-item reclassifications.

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

Table 10: Other Category Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2016	2015	Change	2016	2015	Change
Selected income statement data:						
Net interest income (expense)	\$46	\$(3)	**	\$162	\$6	**
Non-interest income	2	—	**	8	(46)	**
Total net revenue (loss) <sup>(1)</sup>	48	(3)	**	170	(40)	**
Provision (benefit) for credit losses	(1)	(2)	(50)%	(4)	(2)	100%
Non-interest expense	94	39	141	205	252	(19)
Income (loss) from continuing operations before income taxes	(45)	(40)	13	(31)	(290)	(89)
Income tax provision (benefit)	(71)	(78)	(9)	(214)	(299)	(28)
Income (loss) from continuing operations, net of tax	\$26	\$38	(32)	\$183	\$9	**

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

\*\*Change is not meaningful.

Net income from continuing operations recorded in the Other category was \$26 million and \$183 million in the third quarter and first nine months of 2016, respectively, compared to net income from continuing operations of \$38 million and \$9 million in the third quarter and first nine months of 2015, respectively. The increase in net income in the first nine months of 2016, compared to the first nine months of 2015, was primarily driven by (i) higher net interest income due to the impact of balance sheet growth and rates on our corporate investment portfolio revenue; and (ii) lower restructuring charges for severance and related benefits pursuant to our ongoing benefit programs as a result of the realignment of our workforce; partially offset by (i) increased bank optimization charges; and (ii) a reduced income tax benefit as a result of higher income before taxes and increased discrete tax expense, partially offset by increased tax credits.

**CONSOLIDATED BALANCE SHEETS ANALYSIS**

Total assets increased by \$11.0 billion to \$345.1 billion as of September 30, 2016 from December 31, 2015 primarily attributable to an increase of \$8.2 billion in loans held for investment primarily driven by growth in our auto, commercial and credit card loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio and seasonal paydowns in our credit card loan portfolio. Total liabilities increased by \$10.1 billion to \$296.8 billion as of September 30, 2016, primarily driven by an increase in deposits generated by our Consumer Banking business. Stockholders' equity increased by \$929 million to \$48.2 billion as of September 30, 2016, primarily due to our net income of \$3.0 billion in the first nine months of 2016 and \$737 million of other comprehensive income, partially offset by \$2.8 billion of share repurchases under our 2015 and 2016 Stock Repurchase Programs and dividend payments.

The following is a discussion of material changes in the major components of our assets and liabilities during the first nine months of 2016. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing our liquidity requirements for the Company and our customers and our market risk exposure in accordance with our risk appetite.

**Investment Securities**

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise ("Agency") and non-agency residential mortgage-backed securities ("RMBS") and 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% and 90% of our total investment securities portfolio as of September 30, 2016 and December 31, 2015, respectively.

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The fair value of our available for sale securities portfolio was \$41.5 billion as of September 30, 2016, an increase of \$2.5 billion from December 31, 2015. The fair value of our held to maturity securities portfolio was \$26.7 billion as of September 30, 2016, an increase of \$1.4 billion from \$25.3 billion as of December 31, 2015. The increase in the fair value of both of these portfolios was primarily due to lower interest rates and growth in these portfolios as purchases outpaced maturities and paydowns.

Gross unrealized gains on our available for sale securities portfolio increased to \$883 million as of September 30, 2016 compared to \$578 million as of December 31, 2015 and gross unrealized losses on this portfolio decreased to \$101 million as of September 30, 2016 compared to \$321 million as of December 31, 2015, both of which were primarily driven by a decrease in interest rates. Of the \$101 million gross unrealized losses as of September 30, 2016, \$71 million was related to securities that had been in a loss position for 12 months or longer. We provide information on OTTI recognized in earnings on our investment securities above in “MD&A—Consolidated Results of Operations—Non-Interest Income.”

Table 11 presents the amortized cost, carrying value and fair value for the major categories of our investment securities portfolio as of September 30, 2016 and December 31, 2015.

Table 11: Investment Securities

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$5,136	\$5,176	\$4,664	\$4,660
RMBS:				
Agency <sup>(1)</sup>	26,563	26,828	24,332	24,285
Non-agency	2,433	2,822	2,680	3,026
Total RMBS	28,996	29,650	27,012	27,311
CMBS:				
Agency <sup>(1)</sup>	3,492	3,518	3,690	3,664
Non-agency	1,697	1,750	1,723	1,715
Total CMBS	5,189	5,268	5,413	5,379
Other ABS <sup>(2)</sup>	986	991	1,345	1,340
Other securities <sup>(3)</sup>	422	426	370	371
Total investment securities available for sale	\$40,729	\$41,511	\$38,804	\$39,061

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity:				
U.S. Treasury securities	\$199	\$200	\$199	\$198
Agency RMBS	21,605	23,061	21,513	22,133
Agency CMBS	3,215	3,410	2,907	2,986
Total investment securities held to maturity	\$25,019	\$26,671	\$24,619	\$25,317

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

(2) September 30, 2016 and December 31, 2015, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 17% and 11% of the other ABS portfolio as of September 30, 2016 and December 31, 2015, respectively.

(3) Includes foreign government bonds 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. Approximately 95% of our total investment securities portfolio was rated AA+ or its equivalent, or better, as of both September 30, 2016 and December 31, 2015, while

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approximately 4% and 5% was below investment grade as of September 30, 2016 and December 31, 2015, respectively. We categorize the credit ratings of our investment securities based on the lowest credit rating as issued by the following rating agencies: Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of September 30, 2016 and December 31, 2015.

Table 12: Non-Agency Investment Securities Credit Ratings

(Dollars in millions)	September 30, 2016				December 31, 2015			
	Fair Value	AAA	Other Investment Grade	Below Investment Grade <sup>(1)</sup>	Fair Value	AAA	Other Investment Grade	Below Investment Grade <sup>(1)</sup>
Non-agency RMBS	\$2,822	—	3%	97%	\$3,026	—	3%	97%
Non-agency CMBS	1,750	100%	—	—	1,715	100%	—	—
Other ABS	991	99	1	—	1,340	99	1	—
Other securities	426	36	39	25	371	8	64	28

<sup>(1)</sup> 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 13 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 September 30, 2016 and December 31, 2015.

Table 13: Loans Held for Investment

(Dollars in millions)	September 30, 2016			December 31, 2015		
	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	\$99,201	\$ 4,445	\$94,756	\$96,125	\$ 3,654	\$92,471
Consumer Banking	72,285	1,003	71,282	70,372	868	69,504
Commercial Banking	66,457	808	65,649	63,266	604	62,662
Other	76	2	74	88	4	84
Total	\$238,019	\$ 6,258	\$231,761	\$229,851	\$ 5,130	\$224,721

Loans held for investment increased by \$8.2 billion to \$238.0 billion as of September 30, 2016 from December 31, 2015, primarily driven by growth in our auto, commercial and credit card loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio and seasonal paydowns in our credit card loan portfolio.

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."

**Loans Held for Sale**

Loans held for sale, which are carried at lower of cost or fair value, increased by \$90 million to \$994 million as of September 30, 2016 from December 31, 2015. The increase was primarily driven by higher originations in our multifamily finance business in our Commercial Banking business and the timing of sales of these loans, partially offset by the sale of certain commercial and domestic credit card loan portfolios.

**Deposits**

Our deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total deposits increased by \$8.3 billion to \$226.0 billion as of September 30, 2016 from December 31, 2015. The increase in deposits was primarily driven by growth in our Consumer Banking businesses as a result of our continued focus on deposit relationships



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with existing customers and our ability to attract new customers. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in “MD&A—Liquidity Risk Profile.”

**Securitized Debt Obligations**

Securitized debt obligations increased to \$18.4 billion as of September 30, 2016, from \$16.2 billion as of December 31, 2015, as debt issuances exceeded maturities during the first nine months of 2016. We provide additional information on our borrowings below in “MD&A—Liquidity Risk Profile.”

**Other Debt**

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes, and Federal Home Loan Banks (“FHLB”) advances, totaled \$41.4 billion as of September 30, 2016, of which \$40.3 billion represented long-term debt and the remainder represented short-term borrowings. Other debt totaled \$42.9 billion as of December 31, 2015, of which \$42.0 billion represented long-term debt and the remainder represented short-term borrowings.

The decrease in other debt of \$1.5 billion in the first nine months of 2016 was primarily attributable to a decrease in our FHLB advances outstanding. We provide additional information on our borrowings below 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 CCB, which was acquired in February 2009 and subsequently merged into CONA.

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities totaled \$632 million as of September 30, 2016, compared to \$610 million as of December 31, 2015.

The table below summarizes changes in our representation and warranty reserve in the third quarter and first nine months of 2016 and 2015.

Table 14: Changes in Representation and Warranty Reserve

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Representation and warranty reserve, beginning of period	\$614	\$636	\$610	\$731
Provision (benefit) for mortgage representation and warranty losses:				
Recorded in continuing operations	—	(7 )	(2 )	(15 )
Recorded in discontinued operations	18	3	23	(43 )
Total provision (benefit) for mortgage representation and warranty losses	18	(4 )	21	(58 )
Net realized recoveries (losses)	—	—	1	(41 )
Representation and warranty reserve, end of period	\$632	\$632	\$632	\$632





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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 September 30, 2016, is approximately \$1.5 billion, a decline from our estimate of \$1.6 billion as of December 31, 2015. The decrease in this estimate was primarily driven by favorable rulings in representation and warranty-related litigation.

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

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

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

Our continuing involvement in unconsolidated VIEs primarily consists of certain home loan securitization trusts and affordable housing entities. We provide a discussion of our activities related to these VIEs in “Note 6—Variable Interest Entities and Securitizations.”

### CAPITAL MANAGEMENT

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

#### Capital Standards and Prompt Corrective Action

We are subject to capital adequacy standards adopted by the Federal Reserve, Office of the Comptroller of the Currency (“OCC”) and FDIC (collectively, the “Federal Banking Agencies”), including the capital rules that implemented the Basel III capital framework (“Final 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 Final 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 Final 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 will calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though we will continue to use the Standardized Approach for purposes of meeting regulatory capital requirements. The Basel Committee

released proposed changes to the Basel III capital framework. There is uncertainty as to how the Federal Banking Agencies may adopt and implement those and any other potential changes in the United States capital rules

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and how such changes may impact the Basel III Standardized Approach and the Basel III Advanced Approaches once they become finalized.

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 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 September 30, 2016, COBNA is not subject to the Market Risk Rule.

Table 15 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 targets as of September 30, 2016 and December 31, 2015.

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	September 30, 2016			December 31, 2015		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital <sup>(3)</sup>	10.6	4.5%	N/A	11.1%	4.5%	N/A
Tier 1 capital <sup>(4)</sup>	12.0	6.0	6.0%	12.4	6.0	6.0%
Total capital <sup>(5)</sup>	14.7	8.0	10.0	14.6	8.0	10.0
Tier 1 leverage <sup>(6)</sup>	10.1	4.0	N/A	10.6	4.0	N/A
Supplementary leverage <sup>(7)</sup>	8.7	N/A	N/A	9.2	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital <sup>(3)</sup>	12.5%	4.5%	6.5%	12.2%	4.5%	6.5%
Tier 1 capital <sup>(4)</sup>	12.5	6.0	8.0	12.2	6.0	8.0
Total capital <sup>(5)</sup>	15.4	8.0	10.0	15.2	8.0	10.0
Tier 1 leverage <sup>(6)</sup>	10.8	4.0	5.0	10.8	4.0	5.0
Supplementary leverage <sup>(7)</sup>	8.9	N/A	N/A	9.0	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital <sup>(3)</sup>	10.8%	4.5%	6.5%	11.8%	4.5%	6.5%
Tier 1 capital <sup>(4)</sup>	10.8	6.0	8.0	11.8	6.0	8.0
Total capital <sup>(5)</sup>	12.1	8.0	10.0	12.9	8.0	10.0
Tier 1 leverage <sup>(6)</sup>	7.8	4.0	5.0	8.8	4.0	5.0
Supplementary leverage <sup>(7)</sup>	7.0	N/A	N/A	7.9	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

<sup>(1)</sup> 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 40% for 2015, 60% for 2016, 80% for 2017 and 100% for 2018.

Ratios as of September 30, 2016 are preliminary. As we continue to validate our data, the calculations are subject to change until we file our September 30, 2016 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

<sup>(3)</sup> Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.

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

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

<sup>(6)</sup> Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.

<sup>(7)</sup> Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

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 September 30, 2016 and December 31, 2015.

The Final Basel III Capital Rule requires banks to maintain a capital conservation buffer of common equity Tier 1 capital of 2.5% above the regulatory minimum ratio and an incremental countercyclical capital buffer of up to 2.5% of common equity Tier 1 capital to be set at the discretion of the U.S. banking regulators (currently zero percent as of September 30, 2016). Both the capital conservation buffer and the countercyclical capital buffer (if applicable) will be phased-in over a transition period of four years commencing on January 1, 2016. The applicable combined capital conservation buffer and countercyclical capital buffer is 0.625% in 2016 making the minimum capital requirement plus regulatory buffers for common equity Tier 1 capital, Tier 1 capital and total capital ratios, 5.125%, 6.625% and 8.625%, respectively, for the Company and the Banks during 2016.

A common equity Tier 1 capital ratio, Tier 1 capital ratio, or total capital ratio below the applicable regulatory minimum ratio and the combined capital conservation buffer and the countercyclical buffer (if applicable) might restrict a bank's ability to distribute

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capital and make discretionary bonus payments. As of September 30, 2016, the Company and each of the Banks are all above the applicable combined thresholds.

Additionally, banks designated as Globally Systemically Important Banks (“GSIBs”) are subject to an additional regulatory capital surcharge above the combined capital conservation and countercyclical capital buffers established by the Final Basel III Capital Rule. We are currently not designated as a GSIB and therefore not subject to this surcharge.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of September 30, 2016, 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 like us that have not yet exited parallel run. Our estimated common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach is based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and is subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators, there could be further changes to the calculation.

Table 16: Estimated Common Equity Tier 1 Capital Ratio under Fully Phased-In Basel III Standardized Approach <sup>(1)</sup>	
(Dollars in millions)	September 30, 2016
Common equity Tier 1 capital under Basel III Standardized Approach	\$ 29,192
Adjustments related to AOCI <sup>(2)</sup>	(78 )
Adjustments related to intangibles <sup>(2)</sup>	(290 )
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized Approach	\$ 28,824
Risk-weighted assets under Basel III Standardized Approach <sup>(3)</sup>	\$ 275,198
Adjustments for fully phased-in Basel III Standardized Approach <sup>(4)</sup>	119
Estimated risk-weighted assets under fully phased-in Basel III Standardized Approach	\$ 275,317
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach <sup>(5)</sup>	10.5%

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

<sup>(2)</sup> Assumes adjustments are fully phased-in.

<sup>(3)</sup> Includes credit and market risk-weighted assets as of September 30, 2016.

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

Calculated by dividing estimated common equity Tier 1 capital by estimated risk-weighted assets, which are both

<sup>(5)</sup> 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 Final 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 2015 Form 10-K for additional information. Once we exit parallel run, based on clarification of the Final 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 Final 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 April 5, 2016, we submitted our capital plan to the Federal Reserve as part of the 2016 Comprehensive Capital Analysis and Review (“CCAR”) cycle. On June 29, 2016, the Federal Reserve informed us that they had ‘no objection’ to

our CCAR 2016 Capital Plan submission. As a result of this non-objection to our capital plan, the Board of Directors 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, 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. For the description of the regulatory capital planning rules we are subject to, see “Part I—Item 1. Business—Supervision and Regulation” in our 2015 Form 10-K.

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Equity Offerings and Transactions

On July 29, 2016, the Company issued and sold 24,000,000 Depositary Shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G, \$0.01 par value, with a liquidation preference of \$25 per Depositary Share (“Series G Preferred Stock”). The net proceeds of the offering of Series G Preferred Stock were approximately \$583 million, after deducting underwriting commissions and offering expenses. Dividends on the Series G Preferred Stock are payable quarterly in arrears at a rate of 5.20% per annum. Under the terms of the Series G Preferred Stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the Series G 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 Series G Preferred Stock for the immediately preceding dividend period.

Dividend Policy and Stock Purchases

We paid common stock dividends of \$0.40 per share in the third quarter of 2016. We paid preferred stock dividends of \$15.00 per share on the outstanding shares of our Series B Preferred Stock; \$15.625 per share on the outstanding shares of our Series C Preferred Stock; \$16.75 per share on the outstanding shares of our Series D Preferred Stock; and \$15.50 per share on the outstanding shares of our Series F Preferred Stock during the third quarter of 2016. As dividends on our Series E Preferred Stock are payable semi-annually, no dividends were paid on the Series E Preferred Stock in the third quarter of 2016. Our Series G Preferred Stock dividend payments are expected to occur beginning in the fourth quarter of 2016.

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 September 30, 2016, funds available for dividend payments from COBNA and CONA were \$3.5 billion and \$806 million, 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 third quarter of 2016, we repurchased approximately \$1.2 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 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 2015 Form 10-K.

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**RISK MANAGEMENT**

Overview

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 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. When the elements of the framework are executed effectively, we operate according to our expectations for strong risk management.

There are eight elements that comprise the risk framework:

• Establish Governance Processes, Accountabilities and Risk Appetites

• Identify and Assess Risks and Ownership

• Develop and Operate Controls, Monitoring and Mitigation Plans

• Test and Detect Control Gaps and Perform Corrective Action

• Escalate Key Risks and Gaps to Executive Management and, when appropriate, the Board of Directors

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

• Support with the Right Culture, Talent and Skills

• 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 2015 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.”

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## 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 2015 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 September 30, 2016 and December 31, 2015. 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 \$994 million and \$904 million as of September 30, 2016 and December 31, 2015, respectively.

Table 17: Loans Held for Investment Portfolio Composition

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Loans	% of Total	Loans	% of Total
Credit Card:				
Domestic credit card <sup>(1)</sup>	\$90,955	38.2%	\$87,939	38.2%
International credit card	8,246	3.5	8,186	3.6
Total credit card	99,201	41.7	96,125	41.8
Consumer Banking:				
Auto	46,311	19.5	41,549	18.1
Home loan	22,448	9.4	25,227	11.0
Retail banking	3,526	1.5	3,596	1.5
Total consumer banking	72,285	30.4	70,372	30.6
Commercial Banking:				
Commercial and multifamily real estate	26,507	11.1	25,518	11.1
Commercial and industrial	39,432	16.6	37,135	16.2
Total commercial lending	65,939	27.7	62,653	27.3
Small-ticket commercial real estate	518	0.2	613	0.3
Total commercial banking	66,457	27.9	63,266	27.6
Other loans	76	—	88	—
Total loans held for investment	\$238,019	100.0%	\$229,851	100.0%

<sup>(1)</sup> Includes installment loans of \$9 million and \$16 million as of September 30, 2016 and December 31, 2015, respectively.

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## 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 September 30, 2016 and December 31, 2015.

Table 18: Commercial Loans by Industry<sup>(1)</sup>

(Percentage of portfolio)	September 30, December 31,	
	2016	2015
Real estate	39%	39%
Healthcare	15	15
Finance and insurance	13	12
Business services	5	4
Oil and gas <sup>(2)</sup>	4	5
Public administration	4	4
Educational services	4	4
Retail trade	4	3
Construction and land	3	4
Transportation <sup>(3)</sup>	2	3
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 \$2.8 billion and

(2) \$3.4 billion to oil and gas companies as of September 30, 2016 and December 31, 2015, respectively. For information on our total unfunded lending commitments to extend credit see “Note 4—Loans.”

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

## 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 \$16.1 billion as of September 30, 2016 compared to \$19.5 billion as of December 31, 2015. 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 2015 Form 10-K for additional information on PCI loans.

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## Home Loans

The majority of our home loan portfolio are PCI loans acquired from the ING Direct and CCB acquisitions, representing 69% and 73% of our total home loan portfolio as of September 30, 2016 and December 31, 2015, respectively. See “MD&A—Glossary and Acronyms” for the definition of ING Direct and CCB acquisitions. 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 our total home loan portfolio and the break out of the PCI loans and remaining loans within our home loan portfolio by lien priority.

Table 19: Home Loans—Risk Profile by Lien Priority

September 30, 2016

(Dollars in millions)	Home Loans		PCI Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1 <sup>st</sup> lien	\$5,993	26.7%	\$15,184	67.6%	\$21,177	94.3%
2 <sup>nd</sup> lien	989	4.4	282	1.3	1,271	5.7
Total	\$6,982	31.1%	\$15,466	68.9%	\$22,448	100.0%

December 31, 2015

(Dollars in millions)	Home Loans		PCI Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1 <sup>st</sup> lien	\$5,705	22.6%	\$18,207	72.2%	\$23,912	94.8%
2 <sup>nd</sup> lien	995	4.0	320	1.2	1,315	5.2
Total	\$6,700	26.6%	\$18,527	73.4%	\$25,227	100.0%

See “Note 4—Loans” in this Report for additional credit quality information. See “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K 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.

Table 20 provides a sensitivity analysis of PCI loans in our home loan portfolio as of September 30, 2016. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact results that are presented below.

Table 20: Sensitivity Analysis—PCI Home Loans

(Dollars in millions)	September 30, 2016	Estimated Impact Increase (Decrease)
Expected cash flows	\$ 18,548	\$ (37 )
Accretable yield	3,110	75
Allowance for loan and lease losses	28	112

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 the consolidated statements of income.

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## 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 quality. The primary indicator of credit risk in our commercial loan portfolios is our internal risk ratings. Because we generally classify loans that have been delinquent for an extended period of time and other loans with significant risk of loss as nonperforming, the level of nonperforming assets represents another indicator of the potential for future credit losses. In addition to delinquency rates, the geographic distribution of our loans provides insight as to the credit quality of the portfolio based on regional economic conditions.

We underwrite most consumer loans using proprietary models, which are typically based on credit bureau data, including borrower credit scores, along with application information and, where applicable, collateral and deal structure data. We continuously adjust our management of credit lines and collection strategies based on customer behavior and risk profile changes. We 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 card loans held for investment and auto loan portfolios as of September 30, 2016, December 31, 2015 and September 30, 2015.

Table 21: Credit Score Distribution

(Percentage of portfolio)	September 30, 2016	December 31, 2015	September 30, 2015
Domestic credit card—Refreshed FICO scores <sup>(1)</sup> :			
Greater than 660	64%	66%	66%
660 or below	36	34	34
Total	100%	100%	100%
Auto—At origination FICO scores <sup>(2)</sup> :			
Greater than 660	51%	51%	50%
621 - 660	17	17	17
620 or below	32	32	33
Total	100%	100%	100%

<sup>(1)</sup> 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.

<sup>(2)</sup> Credit scores generally represent average FICO scores obtained from three credit bureaus at the time of application and are not refreshed thereafter. Balances for which no credit score is available or the credit score is invalid are included in the 620 or below category.

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

See “Note 4—Loans” in this Report for additional credit quality information. Also, see “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K for information on our accounting policies for delinquent and nonperforming loans, net charge-offs and TDRs for each of our loan categories.

## Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the customer’s due date, measured at the reporting date. Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due but are currently classified as performing and accruing interest. The 30+ day delinquency

and 30+ day performing delinquency metrics are the same for domestic credit card loans, as we continue to classify the substantial majority of domestic credit card loans as performing until the account is charged off, typically when the account is 180 days past due. See “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K for information on our policies for classifying loans as nonperforming for each of

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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 September 30, 2016 and December 31, 2015.

Table 22: 30+ Day Delinquencies

(Dollars in millions)	September 30, 2016				December 31, 2015			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
<b>Credit Card:</b>								
Domestic credit card	\$3,348	3.68%	\$3,348	3.68%	\$2,985	3.39%	\$2,985	3.39%
International credit card	275	3.33	308	3.74	244	2.98	283	3.46
Total credit card	3,623	3.65	3,656	3.69	3,229	3.36	3,268	3.40
<b>Consumer Banking:</b>								
Auto	2,625	5.67	2,825	6.10	2,781	6.69	3,000	7.22
Home loan <sup>(2)</sup>	43	0.19	207	0.92	40	0.16	235	0.93
Retail banking	21	0.59	48	1.35	28	0.76	49	1.36
Total consumer banking <sup>(2)</sup>	2,689	3.72	3,080	4.26	2,849	4.05	3,284	4.67
<b>Commercial Banking:</b>								
Commercial and multifamily real estate	52	0.20	59	0.22	34	0.13	38	0.15
Commercial and industrial	90	0.23	426	1.08	66	0.18	288	0.78
Total commercial lending	142	0.22	485	0.73	100	0.16	326	0.52
Small-ticket commercial real estate	3	0.52	13	2.51	2	0.37	6	1.04
Total commercial banking	145	0.22	498	0.75	102	0.16	332	0.52
Other loans	2	2.73	8	10.61	3	3.61	11	11.98
<b>Total</b>	<b>\$6,459</b>	<b>2.71</b>	<b>\$7,242</b>	<b>3.04</b>	<b>\$6,183</b>	<b>2.69</b>	<b>\$6,895</b>	<b>3.00</b>

<sup>(1)</sup> 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.

Excluding the impact of PCI loans, the 30+ day performing delinquency rate for our home loan and total consumer banking portfolios was 0.62% and 4.74%, respectively, as of September 30, 2016, and 0.60% and 5.50%, respectively, as of December 31, 2015. Excluding the impact of PCI loans, the 30+ day delinquency rate for our home loan and total consumer banking portfolios was 2.97% and 5.42%, respectively, as of September 30, 2016, and 3.50% and 6.34%, respectively, as of December 31, 2015.

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

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

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Amount	% of Total Loans <sup>(1)</sup>	Amount	% of Total Loans <sup>(1)</sup>
Delinquency status:				
30 – 59 days	\$3,129	1.31%	\$3,069	1.33%
60 – 89 days	1,739	0.73	1,668	0.73
> 90 days	2,374	1.00	2,158	0.94
Total	\$7,242	3.04%	\$6,895	3.00%
Geographic region:				
Domestic	\$6,934	2.91%	\$6,612	2.88%
International	308	0.13	283	0.12
Total	\$7,242	3.04%	\$6,895	3.00%
Total loans held for investment	\$238,019	100.00%	\$229,851	100.00%

(1) 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 September 30, 2016 and December 31, 2015. 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)	September 30, 2016		December 31, 2015	
	Amount	% of Total Loans <sup>(1)</sup>	Amount	% of Total Loans <sup>(1)</sup>
Loan category:				
Credit card	\$1,619	1.63%	\$1,500	1.56%
Consumer banking	1	0.00	—	—
Commercial banking	43	0.06	5	0.01
Total	\$1,663	0.70	\$1,505	0.65
Geographic region:				
Domestic	\$1,572	0.68	\$1,426	0.64
International	91	1.11	79	0.96
Total	\$1,663	0.70	\$1,505	0.65

(1) Delinquency rates are calculated for each loan category 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 auto loans that have been charged off as a result of a bankruptcy. Nonperforming loans include loans that have been placed on nonaccrual status. See “Note 1—Summary of Significant Accounting Policies” in our 2015 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 September 30, 2016 and December 31, 2015. The 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<sup>(1)</sup>

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Nonperforming loans held for investment:				
Credit Card:				
International credit card	\$44	0.53%	\$53	0.65%
Total credit card	44	0.04	53	0.06
Consumer Banking:				
Auto	200	0.43	219	0.53
Home loan <sup>(2)</sup>	277	1.23	311	1.23
Retail banking	37	1.05	28	0.77
Total consumer banking <sup>(2)</sup>	514	0.71	558	0.79
Commercial Banking:				
Commercial and multifamily real estate	22	0.08	7	0.03
Commercial and industrial	961	2.44	538	1.45
Total commercial lending	983	1.49	545	0.87
Small-ticket commercial real estate	11	2.13	5	0.83
Total commercial banking	994	1.50	550	0.87
Other loans	9	12.53	9	9.42
Total nonperforming loans held for investment <sup>(3)</sup>	\$1,561	0.66	\$1,170	0.51
Other nonperforming assets: <sup>(4)</sup>				
Foreclosed property <sup>(5)</sup>	\$82	0.03	\$126	0.05
Other assets <sup>(6)</sup>	188	0.08	198	0.09
Total other nonperforming assets	270	0.11	324	0.14
Total nonperforming assets	\$1,831	0.77	\$1,494	0.65

We recognized interest income for loans classified as nonperforming of \$28 million and \$27 million in the first nine months of 2016 and 2015, respectively. Interest income foregone related to nonperforming loans was \$49

<sup>(1)</sup> million and \$42 million in the first nine months of 2016 and 2015, 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.

<sup>(2)</sup> Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 3.97% and 0.90%, respectively, as of September 30, 2016, compared to 4.68% and 1.08%, respectively, as of December 31, 2015.

<sup>(3)</sup> Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 1.06% and 0.83% as of September 30, 2016 and December 31, 2015, respectively.

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

<sup>(5)</sup> Includes acquired REOs of \$63 million and \$101 million as of September 30, 2016 and December 31, 2015, respectively.

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

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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. We exclude accrued and unpaid finance charges and fees and certain fraud losses from charge-offs. 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 2015 Form 10-K for information on our charge-off policy for each of our loan categories. Table 26 presents our net charge-off amounts and rates, by portfolio segment, in the third quarter and first nine months of 2016 and 2015.

Table 26: Net Charge-Offs (Recoveries)

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
<b>Credit Card:</b>								
Domestic credit card	\$841	3.74%	\$619	3.08%	\$2,602	3.99%	\$1,933	3.35%
International credit card	65	3.18	36	1.80	203	3.32	144	2.41
Total credit card	906	3.70	655	2.96	2,805	3.93	2,077	3.26
<b>Consumer Banking:</b>								
Auto	210	1.85	188	1.85	508	1.55	457	1.54
Home loan <sup>(2)</sup>	1	0.03	1	0.01	9	0.05	6	0.03
Retail banking	16	1.75	14	1.53	39	1.46	35	1.30
Total consumer banking <sup>(2)</sup>	227	1.26	203	1.14	556	1.04	498	0.93
<b>Commercial Banking:</b>								
Commercial and multifamily real estate	0	0.01	(9	) (0.15	) (2	) (0.01	) (13	) (0.07
Commercial and industrial	107	1.09	41	0.61	214	0.74	54	0.26
Total commercial lending	107	0.66	32	0.26	212	0.44	41	0.11
Small-ticket commercial real estate	1	0.74	1	0.50	2	0.39	2	0.37
Total commercial banking	108	0.66	33	0.26	214	0.44	43	0.11
Other loans	(1	) (2.59	) (1	) (5.50	) (2	) (3.19	) (1	) (1.40
Total net charge-offs	\$1,240	2.10	\$890	1.69	\$3,573	2.06	\$2,617	1.68
Average loans held for investment	\$235,843		\$211,227		\$231,004		\$207,608	

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

Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.08% and 1.62%, respectively, for the three months ended September 30, 2016, compared to

(2) 0.05% and 1.58%, respectively, for the three months ended September 30, 2015; and 0.18% and 1.37%, respectively, for the nine months ended September 30, 2016, compared to 0.11% and 1.33%, respectively, for the nine months ended September 30, 2015.

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

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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 September 30, 2016 and December 31, 2015. It 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)	September 30, 2016		December 31, 2015	
	Amount	% of Total Modifications	Amount	% of Total Modifications
Credit card	\$672	29.2%	\$666	36.7%
Consumer banking:				
Auto	504	21.8	488	26.8
Home loan	239	10.4	229	12.6
Retail banking	44	1.9	42	2.3
Total consumer banking	787	34.1	759	41.7
Commercial banking	846	36.7	392	21.6
Total	\$2,305	100.0%	\$1,817	100.0%
Status of TDRs:				
Performing	\$1,537	66.7%	\$1,367	75.2 %
Nonperforming	768	33.3	450	24.8
Total	\$2,305	100.0%	\$1,817	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 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. In some cases, the interest rate on a credit card account automatically increases due to non-payment, late payment or similar events. In all cases, we cancel the customer's available line of credit on the credit card. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, 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 both. 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. 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 \$3.0 billion and \$2.5 billion as of September 30, 2016 and December 31, 2015, respectively. Modified TDR loans accounted for \$2.3 billion and \$1.8 billion of impaired loans as of September 30, 2016 and December 31, 2015, 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 in our held for investment portfolio as of each balance sheet date. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses under “Note 1—Summary of Significant Accounting Policies” in our 2015 Form 10-K.

Our allowance for loan and lease losses increased by \$1.1 billion to \$6.3 billion as of September 30, 2016 from December 31, 2015, and the allowance coverage ratio increased by 40 basis points to 2.63% as of September 30, 2016 from December 31, 2015. The increases were primarily driven by (i) a higher domestic card allowance due to continued portfolio growth, the effects of growth and subprime mix, and slightly higher expected credit losses in 2017 for portions of our credit card portfolio collectively leading to an increased overall loss rate; (ii) continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios in our Commercial Banking business; and (iii) continued auto loan growth and the effects of growth leading to an increased overall loss rate. Table 28 presents changes in our allowance for loan and lease losses and reserve for unfunded lending commitments for the third quarter and first nine months of 2016 and 2015, and details by portfolio segment the provision for credit losses, charge-offs and recoveries recognized in our consolidated statements of income.

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Three Months Ended September 30, 2016

(Dollars in millions)	Credit Card			Consumer Banking					Commercial Banking	Other <sup>(1)</sup>	Total
	Domestic Card	International Card	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking				
Allowance for loan and lease losses:											
Balance as of June 30, 2016	\$3,730	\$ 356	\$4,086	\$833	\$ 58	\$ 81	\$972	\$ 821	\$ 2	\$5,881	
Provision (benefit) for loan and lease losses	1,190	82	1,272	239	5	14	258	96	(1 )	1,625	
Charge-offs	(1,062 )	(109 )	(1,171 )	(300 )	(3 )	(20 )	(323 )	(112 )	—	(1,606 )	
Recoveries	221	44	265	90	2	4	96	4	1	366	
Net charge-offs	(841 )	(65 )	(906 )	(210 )	(1 )	(16 )	(227 )	(108 )	1	(1,240 )	
Other changes <sup>(2)</sup>	—	(7 )	(7 )	—	—	—	—	(1 )	—	(8 )	
Balance as of September 30, 2016	4,079	366	4,445	862	62	79	1,003	808	2	6,258	
Reserve for unfunded lending commitments:											
Balance as of June 30, 2016	—	—	—	—	—	8	8	161	—	169	
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	(2 )	(2 )	(35 )	—	(37 )	
Balance as of September 30, 2016	—	—	—	—	—	6	6	126	—	132	
Combined allowance and reserve as of September 30, 2016	\$4,079	\$ 366	\$4,445	\$862	\$ 62	\$ 85	\$1,009	\$ 934	\$ 2	\$6,390	

## Nine Months Ended September 30, 2016

(Dollars in millions)	Credit Card			Consumer Banking					Commercial Banking	Other <sup>(1)</sup>	Total
	Domestic Card	International Card	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking				
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	
Provision (benefit) for loan and lease losses	3,326	278	3,604	644	1	46	691	452	(4 )	4,743	
Charge-offs	(3,287 )	(321 )	(3,608 )	(796 )	(15 )	(51 )	(862 )	(224 )	(2 )	(4,696 )	
Recoveries	685	118	803	288	6	12	306	10	4	1,123	
Net charge-offs	(2,602 )	(203 )	(2,805 )	(508 )	(9 )	(39 )	(556 )	(214 )	2	(3,573 )	
Other changes <sup>(2)</sup>	—	(8 )	(8 )	—	—	—	—	(34 )	—	(42 )	
Balance as of September 30, 2016	4,079	366	4,445	862	62	79	1,003	808	2	6,258	
Reserve for unfunded lending commitments:											
	—	—	—	—	—	7	7	161	—	168	

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Balance as of December 31, 2015										
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	(1 )	(1 )	(35 )	—	(36 )
Balance as of September 30, 2016	—	—	—	—	—	6	6	126	—	132
Combined allowance and reserve as of September 30, 2016	\$4,079	\$ 366	\$4,445	\$862	\$ 62	\$ 85	\$ 1,009	\$ 934	\$ 2	\$6,390

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(Dollars in millions)	Three Months Ended September 30, 2015									
	Credit Card			Consumer Banking						
	Domestic Card	International Card	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other <sup>(1)</sup>	Total
Allowance for loan and lease losses:										
Balance as of June 30, 2015	\$3,018	\$ 306	\$3,324	\$744	\$ 65	\$ 66	\$ 875	\$ 472	\$ 5	\$4,676
Provision (benefit) for loan and lease losses	796	35	831	178	(4 )	14	188	60	(2 )	1,077
Charge-offs	(835 )	(95 )	(930 )	(264 )	(5 )	(17 )	(286 )	(47 )	—	(1,263 )
Recoveries	216	59	275	76	4	3	83	14	1	373
Net charge-offs	(619 )	(36 )	(655 )	(188 )	(1 )	(14 )	(203 )	(33 )	1	(890 )
Other changes <sup>(2)</sup>	1	(17 )	(16 )	—	—	—	—	—	—	(16 )
Balance as of September 30, 2015	3,196	288	3,484	734	60	66	860	499	4	4,847
Reserve for unfunded lending commitments:										
Balance as of June 30, 2015	—	—	—	—	—	7	7	128	—	135
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	—	—	15	—	15
Balance as of September 30, 2015	—	—	—	—	—	7	7	143	—	150
Combined allowance and reserve as of September 30, 2015	\$3,196	\$ 288	\$3,484	\$734	\$ 60	\$ 73	\$ 867	\$ 642	\$ 4	\$4,997
	Nine Months Ended September 30, 2015									
(Dollars in millions)	Credit Card			Consumer Banking						
	Domestic Card	International Card	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other <sup>(1)</sup>	Total
Allowance for loan and lease losses:										
Balance as of December 31, 2014	\$2,878	\$ 326	\$3,204	\$661	\$ 62	\$ 56	\$ 779	\$ 395	\$ 5	\$4,383
Provision (benefit) for loan and lease losses	2,259	136	2,395	530	4	45	579	147	(2 )	3,119
Charge-offs	(2,649 )	(291 )	(2,940 )	(700 )	(14 )	(47 )	(761 )	(67 )	(5 )	(3,773 )
Recoveries	716	147	863	243	8	12	263	24	6	1,156
Net charge-offs	(1,933 )	(144 )	(2,077 )	(457 )	(6 )	(35 )	(498 )	(43 )	1	(2,617 )
Other changes <sup>(2)</sup>	(8 )	(30 )	(38 )	—	—	—	—	—	—	(38 )
Balance as of September 30, 2015	3,196	288	3,484	734	60	66	860	499	4	4,847
Reserve for unfunded lending commitments:										
Balance as of December 31, 2014	—	—	—	—	—	7	7	106	—	113

Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	—	—	37	—	37
Balance as of September 30, 2015	—	—	—	—	—	7	7	143	—	150
Combined allowance and reserve as of September 30, 2015	\$3,196	\$ 288	\$3,484	\$734	\$ 60	\$ 73	\$ 867	\$ 642	\$ 4	\$4,997

(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 September 30, 2016 and December 31, 2015.

Table 29: Allowance Coverage Ratios

	September 30, 2016	December 31, 2015
Total allowance coverage ratio:		
Allowance for loan and lease losses as a % of loans held for investment	2.63%	2.23%
Allowance coverage ratios by loan category: <sup>(1)</sup>		
Credit card (30+ day delinquent loans)	121.59	111.81
Consumer banking (30+ day delinquent loans)	32.53	26.42
Commercial banking (nonperforming loans)	81.33	109.76

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

**LIQUIDITY RISK PROFILE**

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

Table 30 below presents the composition of our liquidity reserves as of September 30, 2016 and December 31, 2015.

Table 30: Liquidity Reserves

(Dollars in millions)	September 30, 2016	December 31, 2015
Cash and cash equivalents	\$ 9,094	\$ 8,023
Investment securities available for sale, at fair value	41,511	39,061
Investment securities held to maturity, at fair value	26,671	25,317
Total investment securities portfolio <sup>(1)(2)</sup>	68,182	64,378
FHLB borrowing capacity secured by loans	25,258	30,661
Outstanding FHLB advances and letters of credit secured by loans	(16,786 )	(20,514 )
Investment securities encumbered for Public Funds and others	(9,015 )	(10,602 )
Total liquidity reserves	\$ 76,733	\$ 71,946

(1) The weighted-average life of our securities was approximately 4.9 years and 5.8 years as of September 30, 2016 and December 31, 2015, 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 \$2.1 billion and \$1.7 billion as of September 30, 2016 and December 31, 2015, respectively. We also pledged securities held to maturity with a carrying value of \$7.4 billion and \$8.7 billion as of September 30, 2016 and December 31, 2015, respectively.

Our liquidity reserves increased by \$4.8 billion to \$76.7 billion as of September 30, 2016 from December 31, 2015 primarily due to an increase in our investment securities portfolio. See "MD&A—Risk Management" in our 2015 Form 10-K for additional information on our management of liquidity risk.

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

**Borrowing Capacity**

We filed a shelf registration statement with the U.S. Securities and Exchange Commission (“SEC”) on March 31, 2015, which expires in March 2018. Under this shelf registration, we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration 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 \$26.2 billion as of September 30, 2016, of which \$9.4 billion was still available to us to borrow as of September 30, 2016. We pledged loan collateral with an outstanding balance of \$30.0 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 \$723 million and \$884 million as of September 30, 2016 and December 31, 2015, 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 \$8.7 billion as of September 30, 2016. Although available, we do not view this borrowing capacity as a primary source of liquidity and did not utilize it during 2015 or the first nine months of 2016.

**Funding**

The Company’s primary source of funding comes from deposits, which provide us with a stable and relatively low cost of funds. In addition to deposits, the Company raises funding through the 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, the federal funds purchased and other borrowings. A key objective in our use of these markets is to maintain access to a diversified mix of wholesale funding sources.

**Deposits**

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

Table 31: Deposit Composition and Average Deposit Rates

(Dollars in millions)	September	December
	30, 2016	31, 2015
Non-interest-bearing deposits	\$ 25,565	\$ 25,847
Interest-bearing checking accounts <sup>(1)</sup>	44,705	44,720
Saving deposits <sup>(2)</sup>	139,185	134,075
Time deposits less than \$100,000	13,258	10,347
Total core deposits	222,713	214,989
Time deposits of \$100,000 or more	2,660	1,889
Foreign deposits <sup>(3)</sup>	608	843
Total deposits	\$ 225,981	\$ 217,721





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(Dollars in millions)	Three Months Ended September 30,					
	2016			2015		
	Average Balance	Interest Expense	Average Deposit Rate	Average Balance	Interest Expense	Average Deposit Rate
Interest-bearing checking accounts <sup>(1)</sup>	\$44,619	\$ 54	0.48%	\$42,607	\$ 53	0.49%
Saving deposits <sup>(2)</sup>	137,365	207	0.60	132,992	191	0.57
Time deposits less than \$100,000	11,658	35	1.21	7,191	18	0.96
Total interest-bearing core deposits	193,642	296	0.61	182,790	262	0.57
Time deposits of \$100,000 or more	2,644	9	1.38	2,009	8	1.74
Foreign deposits <sup>(3)</sup>	627	1	0.36	1,001	1	0.33
Total interest-bearing deposits	\$196,913	\$ 306	0.62	\$185,800	\$ 271	0.58
(Dollars in millions)	Nine Months Ended September 30,					
	2016			2015		
	Average Balance	Interest Expense	Average Deposit Rate	Average Balance	Interest Expense	Average Deposit Rate
Interest-bearing checking accounts <sup>(1)</sup>	\$45,458	\$ 164	0.48%	\$42,631	\$ 156	0.49%
Saving deposits <sup>(2)</sup>	136,042	596	0.58	132,306	578	0.58
Time deposits less than \$100,000	10,953	94	1.15	6,221	49	1.04
Total interest-bearing core deposits	192,453	854	0.59	181,158	783	0.58
Time deposits of \$100,000 or more	2,441	25	1.39	2,080	28	1.85
Foreign deposits <sup>(3)</sup>	671	2	0.35	1,020	3	0.34
Total interest-bearing deposits	\$195,565	\$ 881	0.60	\$184,258	\$ 814	0.59

<sup>(1)</sup> Includes Negotiable Order of Withdrawal (“NOW”) accounts.

<sup>(2)</sup> Includes Money Market Deposit Accounts (“MMDA”).

<sup>(3)</sup> Substantially all of our foreign deposits were greater than \$100,000 as of both September 30, 2016 and December 31, 2015.

Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Those brokered deposits are reported as interest-bearing checking, saving deposits and time deposits in the above table and totaled \$15.0 billion and \$12.0 billion as of September 30, 2016 and December 31, 2015, 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 both September 30, 2016 and December 31, 2015. See “Part I—Item 1. Business—Supervision and Regulation” for additional information.

#### Short-Term Borrowings and Long-Term Debt

We access the capital markets to meet our funding needs through the issuance of senior and subordinated notes, securitized debt obligations, and federal funds purchased and securities loaned or sold under agreements to repurchase. In addition, we may utilize short-term and long-term FHLB advances secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and home equity lines of credit. Substantially all of our long-term FHLB advances are structured with either a 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, and short-term FHLB advances, increased by \$98 million to \$1.1 billion as of September 30, 2016 from December 31, 2015.



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Our long-term debt, which primarily consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by \$607 million to \$58.7 billion as of September 30, 2016 from December 31, 2015, as issuances outpaced maturities.

Table 32 displays the maturity profile, based on contractual maturities, of our long-term debt including securitized debt obligations, senior and subordinated notes and other borrowings as of September 30, 2016, and the outstanding balances as of December 31, 2015.

Table 32: Contractual Maturity Profile of Outstanding Long-Term Debt  
September 30, 2016

(Dollars in millions)	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years to 5 Years	> 5 Years	Total	December 31, 2015
Securitized debt obligations	\$7,986	\$ 1,953	\$ 5,296	\$ 1,086	\$ 1,748	\$ 342	\$18,411	\$ 16,166
Senior and subordinated notes:								
Unsecured senior debt	3,221	4,098	5,700	—	3,594	2,688	19,301	17,757
Unsecured subordinated debt	—	—	319	—	—	4,381	4,700	4,080
Total senior and subordinated notes	3,221	4,098	6,019	—	3,594	7,069	24,001	21,837
Other long-term borrowings:								
FHLB advances	33	10	2	—	2,350	13,901	16,296	20,098
Capital lease obligations	1	1	1	1	1	28	33	33
Total other long-term borrowings	34	11	3	1	2,351	13,929	16,329	20,131
Total long-term debt <sup>(1)</sup>	\$11,241	\$ 6,062	\$ 11,318	\$ 1,087	\$ 7,693	\$ 21,340	\$58,741	\$ 58,134
Percentage of total	19%	10%	19%	2%	13%	37%	100%	100%

Includes unamortized discounts, premiums and basis adjustments relating to accounting hedges, which together <sup>(1)</sup> result in a net addition of \$40 million and a net reduction of \$224 million as of September 30, 2016 and December 31, 2015, respectively.

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

**Credit Ratings**

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

Table 33 provides a summary of the credit ratings for the senior unsecured long-term debt of Capital One Financial Corporation, COBNA and CONA as of September 30, 2016 and December 31, 2015.

	September 30, 2016			December 31, 2015		
	Capital One Financial Corporation	COBNA	CONA	Capital One Financial Corporation	COBNA	CONA
Moody's	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
S&P	BBB	BBB+	BBB+	BBB	BBB+	BBB+
Fitch	A-	A-	A-	A-	A-	A-

As of October 31, 2016, Moody's, S&P and 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.

#### Interest Rate Risk

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

#### Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. Our primary exposure to foreign exchange risk is related to the operations of our International Card business 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 have net equity investments in these operations and provide intercompany funding to them denominated in GBP and CAD, as well as exposure to 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. As of September 30, 2016, 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.

In regard to our non-dollar-denominated equity, we measure our total exposure by regularly tracking the value of our net equity invested in the largest of our U.K. and Canadian operations. 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 International Card business were 1.5 billion GBP and 1.4 billion GBP as of September 30, 2016 and December 31, 2015, respectively, and 819 million CAD and 686 million CAD as of September 30, 2016 and December 31, 2015, respectively.

The intercompany borrowings to our International Card business were 802 million GBP and 893 million GBP as of September 30, 2016 and December 31, 2015, respectively, and 5.9 billion CAD as of both September 30, 2016 and December 31, 2015. We hedge all the cash flows associated with these borrowings with forward foreign currency derivative contracts.

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.

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.

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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. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current market risk management policies include the use of derivatives. 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 \$133.4 billion as of September 30, 2016 from \$105.9 billion as of December 31, 2015 primarily driven by an increase in our hedging activities.

**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. Because the federal funds rate was lowered to near zero in December 2008, the rate remained in a target range of 0% to 0.25% until December 2015, and subsequently increased to a range of 0.25% to 0.50%, we use a 50 basis points decrease as our declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is unlikely. In scenarios where a 50 basis points decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

**Net Interest Income Sensitivity**

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

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During the second quarter of 2016, we updated our projected deposit re-pricing assumptions as part of our regular evaluation and assessment of the assumptions and models used to measure our interest rate risk sensitivity. This update reduced our estimated asset sensitivity as shown in our projected base-line net interest income measure and had a minor impact to our economic value of equity measures.

Table 34 shows the estimated percentage impact on our projected base-line net interest income and economic value of equity calculated under our revised methodology described above as of September 30, 2016 and December 31, 2015, as well as under our previous methodology as of December 31, 2015.

Table 34: Interest Rate Sensitivity Analysis

	Revised Methodology		Previous Methodology
	September 30, 2016	December 31, 2015	December 31, 2015
Estimated impact on projected base-line net interest income:			
+200 basis points	0.6%	0.3%	2.6%
+100 basis points	1.1	0.8	1.6
+50 basis points	0.9	0.6	0.9
-50 basis points	(1.8 )	(1.4 )	(1.6 )
Estimated impact on economic value of equity:			
+200 basis points	0.4%	(4.8)%	(5.2)%
+100 basis points	1.9	(1.3 )	(1.5 )
+50 basis points	1.5	(0.3 )	(0.4 )
-50 basis points	(2.7 )	(0.6 )	(0.6 )

Our projected net interest income and economic value of equity sensitivity measures were within our policy limits as of September 30, 2016 and December 31, 2015. 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.

**SUPERVISION AND REGULATION**

On August 30, 2016, the FDIC provided notice that the Deposit Insurance Fund (“DIF”) Reserve Ratio rose to 1.17% on June 30, 2016. As a result, two major changes were triggered to deposit insurance assessments effective in the third quarter and will be reflected in banks’ December 2016 FDIC assessment invoices. First, the range of initial assessment rates for all banks, including the Banks, will decline based on final FDIC rules issued on February 7, 2011, and April 26, 2016. Second, the surcharge assessments imposed on insured depository institutions with total consolidated assets of \$10 billion or more, including the Banks, will equal an annual rate of 4.5 basis points, in addition to the regular quarterly deposit insurance assessments applicable to all insured depository institutions, pursuant to the final FDIC

rule issued on March 15, 2016.

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We provide additional information on our Supervision and Regulation in our 2015 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation” and our Quarterly Reports on Form 10-Q for the periods ended March 31, 2016, and June 30, 2016, under “MD&A—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;
- any significant disruption in our operations or technology platform, including security failures or breaches on our business;
- our ability to maintain a compliance and technology infrastructure suitable for the nature of our business;

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our ability to develop digital technology that addresses the needs of our customers, including the challenges relating to rapid significant technological changes;

our ability to control costs;

the effectiveness of our risk management strategies;

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 United States mail service affecting our response rates and consumer payments;

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

our ability to recruit and retain talented and experienced personnel;

changes in the labor and employment markets;

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

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

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

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2015 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 measures and regulatory capital. 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)	September 30, December 31,	
	2016	2015
<b>Period End Tangible Common Equity</b>		
Period end stockholders' equity	\$ 48,213	\$ 47,284
Goodwill and intangible assets <sup>(1)</sup>	(15,475 )	(15,701 )
Noncumulative perpetual preferred stock <sup>(2)</sup>	(3,877 )	(3,294 )
Tangible common equity	\$ 28,861	\$ 28,289
<b>Quarterly Average Tangible Common Equity</b>		
Average stockholders' equity	\$ 49,033	\$ 48,712
Average goodwill and intangible assets <sup>(1)</sup>	(15,507 )	(15,316 )
Average noncumulative perpetual preferred stock <sup>(2)</sup>	(3,719 )	(3,294 )
Average tangible common equity	\$ 29,807	\$ 30,102
<b>Period End Tangible Assets</b>		
Period end assets	\$ 345,061	\$ 334,048
Goodwill and intangible assets <sup>(1)</sup>	(15,475 )	(15,701 )
Tangible assets	\$ 329,586	\$ 318,347
<b>Quarterly Average Tangible Assets</b>		
Average assets	\$ 343,153	\$ 323,354
Average goodwill and intangible assets <sup>(1)</sup>	(15,507 )	(15,316 )
Average tangible assets	\$ 327,646	\$ 308,038
<b>Non-GAAP Ratio</b>		
TCE <sup>(3)</sup>	8.8%	8.9%
<b>Capital Ratios</b>		
Common equity Tier 1 capital <sup>(4)</sup>	10.6	% 11.1%
Tier 1 capital <sup>(5)</sup>	12.0	12.4
Total capital <sup>(6)</sup>	14.7	14.6
Tier 1 leverage <sup>(7)</sup>	10.1	10.6
Supplementary leverage <sup>(8)</sup>	8.7	9.2
<b>Regulatory Capital Metrics</b>		
Risk-weighted assets <sup>(9)</sup>	\$ 275,198	\$ 265,739
Adjusted average assets <sup>(7)</sup>	328,627	309,037
Total leverage exposure for supplementary leverage ratio	379,340	357,794

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(Dollars in millions)	September 30, December 31,	
	2016	2015
Regulatory Capital Under Basel III Standardized Approach		
Common equity excluding AOCI	\$ 44,214	\$ 44,606
Adjustments:		
AOCI <sup>(10)(11)</sup>	199	(254 )
Goodwill <sup>(1)</sup>	(14,288 )	(14,296 )
Intangible assets <sup>(1)(11)</sup>	(435 )	(393 )
Other	(498 )	(119 )
Common equity Tier 1 capital	29,192	29,544
Tier 1 capital instruments <sup>(2)</sup>	3,877	3,294
Additional Tier 1 capital adjustments	—	—
Tier 1 capital	33,069	32,838
Tier 2 capital instruments	4,024	2,654
Qualifying allowance for loan and lease losses	3,470	3,346
Additional Tier 2 capital adjustments	1	—
Tier 2 capital	7,495	6,000
Total capital <sup>(12)</sup>	\$ 40,564	\$ 38,838

(1) Includes impact of related deferred taxes.

(2) Includes related surplus.

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

(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.

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

(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 as of September 30, 2016.

(10) Amounts presented are net of tax.

(11) Amounts based on transition provisions for regulatory capital deductions and adjustments of 40% for 2015 and 60% for 2016.

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

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Glossary and Acronyms

**2015 Stock Repurchase Program:** On March 11, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$3.125 billion of shares of our common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016. On February 17, 2016 we announced that our Board of Directors had authorized the repurchase of up to an additional \$300 million of shares of common stock through the end of the second quarter of 2016.

**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.

**Annual Report:** References to our “2015 Form 10-K” or “2015 Annual Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015.

**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 Final Basel III Capital Rule modified the Advanced Approaches version of Basel II to create the Basel III Advanced Approaches.

**Basel III Standardized Approach:** The Final 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.

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

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

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

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

**Credit risk:** 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.

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.

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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 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.

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, Fitch or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered to be non-investment grade.

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

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

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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.

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 fourth quarter of 2015 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 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.

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

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

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: 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"): 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

AOCI: Accumulated other comprehensive income

ARM: Adjustable rate mortgage

ASC: Accounting Standards Codification

BHC: Bank holding company

bps: Basis points

CAD: Canadian dollar

CCAR: Comprehensive Capital Analysis and Review

CDE: Community development entities

CECL: Current expected credit loss

CIFG: CIFG Assurance North America, Inc. (“U.S. Bank Litigation”)

CMBS: Commercial mortgage-backed securities

COEP: Capital One (Europe) plc

COF: Capital One Financial Corporation

CVG: Corporate Valuations Group

DIF: Deposit insurance fund

Fannie Mae: Federal National Mortgage Association

FASB: Financial Accounting Standards Board

FCA: Financial Conduct Authority

FDIC: Federal Deposit Insurance Corporation

FFIEC: Federal Financial Institutions Examination Council

FHLB: Federal Home Loan Banks

FHFA: Federal Housing Finance Agency

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

GSIB: Globally systemically important banks

HELOCs: Home equity lines of credit

HFI: Held for investment

HFS: Healthcare Financial Services

LCR: Liquidity coverage ratio

LIBOR: London Interbank Offered Rate

MMDA: Money market deposit accounts

Moody’s: Moody’s Investors Service

MSR: Mortgage servicing rights

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MVG: Model Validation Group  
NOW: Negotiable order of withdrawal  
OCC: Office of the Comptroller of the Currency  
OTC: Over-the-counter  
PCA: Prompt corrective action  
PCI: Purchased credit-impaired  
PCCR: Purchased credit card relationship  
PPI: Payment protection insurance  
REO: Real estate owned  
RMBS: Residential mortgage-backed securities  
S&P: Standard & Poor's  
SEC: U.S. Securities and Exchange Commission  
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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CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2016	2015	2016	2015
(Dollars in millions, except per share-related data)				
Interest income:				
Loans, including loans held for sale	\$5,383	\$4,753	\$15,616	\$13,824
Investment securities	386	386	1,206	1,174
Other	25	25	60	77
Total interest income	5,794	5,164	16,882	15,075
Interest expense:				
Deposits	306	271	881	814
Securitized debt obligations	56	39	151	108
Senior and subordinated notes	121	82	338	241
Other borrowings	34	12	86	39
Total interest expense	517	404	1,456	1,202
Net interest income	5,277	4,760	15,426	13,873
Provision for credit losses	1,588	1,092	4,707	3,156
Net interest income after provision for credit losses	3,689	3,668	10,719	10,717
Non-interest income:				
Service charges and other customer-related fees	387	423	1,162	1,289
Interchange fees, net	603	555	1,815	1,618
Total other-than-temporary impairment	0	(11 )	(12 )	(32 )
Less: Portion of other-than-temporary impairment recorded in AOCI	0	6	2	5
Net other-than-temporary impairment recognized in earnings	0	(5 )	(10 )	(27 )
Other	194	167	542	466
Total non-interest income	1,184	1,140	3,509	3,346
Non-interest expense:				
Salaries and associate benefits	1,317	1,189	3,866	3,760
Occupancy and equipment	499	444	1,422	1,318
Marketing	393	418	1,236	1,180
Professional services	296	313	878	943
Communications and data processing	252	226	757	636
Amortization of intangibles	89	106	285	327
Other	515	464	1,435	1,352
Total non-interest expense	3,361	3,160	9,879	9,516
Income from continuing operations before income taxes	1,512	1,648	4,349	4,547
Income tax provision	496	530	1,372	1,443
Income from continuing operations, net of tax	1,016	1,118	2,977	3,104
Income (loss) from discontinued operations, net of tax	(11 )	(4 )	(17 )	26
Net income	1,005	1,114	2,960	3,130
Dividends and undistributed earnings allocated to participating securities	(6 )	(6 )	(18 )	(16 )
Preferred stock dividends	(37 )	(29 )	(139 )	(90 )
Net income available to common stockholders	\$962	\$1,079	\$2,803	\$3,024
Basic earnings per common share:				
Net income from continuing operations	\$1.94	\$2.01	\$5.50	\$5.49
Income (loss) from discontinued operations	(0.02 )	(0.01 )	(0.03 )	0.05

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Net income per basic common share	\$1.92	\$2.00	\$5.47	\$5.54
Diluted earnings per common share:				
Net income from continuing operations	\$1.92	\$1.99	\$5.45	\$5.43
Income (loss) from discontinued operations	(0.02 )	(0.01 )	(0.03 )	0.05
Net income per diluted common share	\$1.90	\$1.98	\$5.42	\$5.48
Dividends paid per common share	\$0.40	\$0.40	\$1.20	\$1.10
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		Nine Months	
	Ended		Ended	
	September 30,	September 30,	September 30,	September 30,
	2016	2015	2016	2015
Net income	\$1,005	\$1,114	\$2,960	\$3,130
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale	10	62	333	18
Net changes in securities held to maturity	28	25	74	72
Net unrealized gains (losses) on cash flow hedges	(142 )	230	378	311
Foreign currency translation adjustments	(20 )	(52 )	(49 )	(101 )
Other	4	(10 )	1	(12 )
Other comprehensive income (loss), net of tax	(120 )	255	737	288
Comprehensive income	\$885	\$1,369	\$3,697	\$3,418

See Notes to Consolidated Financial Statements.

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CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share data)	September 30, 2016	December 31, 2015
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$ 3,350	\$ 3,407
Interest-bearing deposits with banks	5,744	4,616
Total cash and cash equivalents	9,094	8,023
Restricted cash for securitization investors	287	1,017
Securities available for sale, at fair value	41,511	39,061
Securities held to maturity, at carrying value	25,019	24,619
Loans held for investment:		
Unsecuritized loans held for investment	206,763	196,068
Loans held in consolidated trusts	31,256	33,783
Total loans held for investment	238,019	229,851
Allowance for loan and lease losses	(6,258)	(5,130)
Net loans held for investment	231,761	224,721
Loans held for sale, at lower of cost or fair value	994	904
Premises and equipment, net	3,561	3,584
Interest receivable	1,251	1,189
Goodwill	14,493	14,480
Other assets	17,090	16,450
Total assets	\$ 345,061	\$ 334,048
Liabilities:		
Interest payable	\$ 237	\$ 299
Deposits:		
Non-interest-bearing deposits	25,565	25,847
Interest-bearing deposits	200,416	191,874
Total deposits	225,981	217,721
Securitized debt obligations	18,411	16,166
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	1,079	981
Senior and subordinated notes	24,001	21,837
Other borrowings	16,329	20,131
Total other debt	41,409	42,949
Other liabilities	10,810	9,629
Total liabilities	296,848	286,764
Commitments, contingencies and guarantees (see Note 14)		
Stockholders' equity:		
Preferred stock (par value \$.01 per share; 50,000,000 shares authorized; 3,975,000 and 3,375,000 shares issued and outstanding as of September 30, 2016 and December 31, 2015, respectively)	0	0
Common stock (par value \$.01 per share; 1,000,000,000 shares authorized; 651,136,853 and 648,317,395 shares issued as of September 30, 2016 and December 31, 2015,	7	6

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respectively, 489,220,122 and 527,259,920 shares outstanding as of September 30, 2016 and December 31, 2015, respectively)

Additional paid-in capital, net	30,439	29,655
Retained earnings	29,245	27,045
Accumulated other comprehensive income (loss)	121	(616 )
Treasury stock, at cost (par value \$.01 per share; 161,916,731 and 121,057,475 shares as of September 30, 2016 and December 31, 2015, respectively)	(11,599 )	(8,806 )
Total stockholders' equity	48,213	47,284
Total liabilities and stockholders' equity	\$ 345,061	\$ 334,048

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			Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Additional Paid-In Capital				
Balance as of December 31, 2015	3,375,000	\$ 0	648,317,395	\$ 6	\$ 29,655	\$ 27,045	\$ (616 )	\$(8,806 )	\$ 47,284
Comprehensive income (loss)						2,960	737		3,697
Dividends—common stock			46,900	0	3	(621 )			(618 )
Dividends—preferred stock						(139 )			(139 )
Purchases of treasury stock								(2,793 )	(2,793 )
Issuances of common stock and restricted stock, net of forfeitures			2,747,338	1	98				99
Exercise of stock options, tax effects of exercises and restricted stock vesting			25,220	0	(28 )				(28 )
Issuance of preferred stock (Series G)	600,000	0			583				583
Compensation expense for restricted stock awards, restricted stock units and stock options					128				128
Balance as of September 30, 2016	3,975,000	\$ 0	651,136,853	\$ 7	\$ 30,439	\$ 29,245	\$ 121	\$(11,599)	\$ 48,213

See Notes to Consolidated Financial Statements.

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CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

	Nine Months Ended September 30,	
	2016	2015
(Dollars in millions)		
Operating activities:		
Income from continuing operations, net of tax	\$2,977	\$3,104
Income (loss) from discontinued operations, net of tax	(17 )	26
Net income	2,960	3,130
Adjustments to reconcile net income to cash provided by operating activities:		
Provision for credit losses	4,707	3,156
Depreciation and amortization, net	1,819	1,558
Net gain on sales of securities available for sale	(3 )	(4 )
Impairment losses on securities available for sale	10	27
Gain on sales of loans held for sale	(77 )	(75 )
Stock plan compensation expense	150	121
Other	(10 )	0
Loans held for sale:		
Originations and purchases	(6,122 )	(5,080 )
Proceeds from sales and paydowns	5,888	5,270
Changes in operating assets and liabilities:		
Changes in interest receivable	(63 )	(19 )
Changes in other assets	(528 )	(193 )
Changes in interest payable	(62 )	(56 )
Changes in other liabilities	1,166	1,234
Net cash from discontinued operations	26	(64 )
Net cash from operating activities	9,861	9,005
Investing activities:		
Securities available for sale:		
Purchases	(11,349)	(9,268 )
Proceeds from paydowns and maturities	5,773	6,067
Proceeds from sales	3,528	3,211
Securities held to maturity:		
Purchases	(2,281 )	(2,865 )
Proceeds from paydowns and maturities	1,874	1,657
Loans:		
Net changes in loans held for investment	(13,068)	(8,678 )
Principal recoveries of loans previously charged off	1,123	1,156
Purchases of premises and equipment	(508 )	(411 )
Net cash from other investing activities	(269 )	(429 )
Net cash from investing activities	(15,177)	(9,560 )
Financing activities:		
Deposits and borrowings:		
Changes in restricted cash for securitization investors	730	(352 )
Changes in deposits	8,249	7,348
Issuance of securitized debt obligations	4,987	4,139
Maturities and paydowns of securitized debt obligations	(2,790 )	(175 )

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Issuance of senior and subordinated notes and long-term FHLB advances	20,380	14,536
Maturities and paydowns of senior and subordinated notes and long-term FHLB advances	(22,401)	(8,443 )
Changes in other short-term borrowings	97	(16,035)
Common stock:		
Net proceeds from issuances	\$99	\$84
Dividends paid	(618 )	(602 )
Preferred stock:		
Net proceeds from issuances	583	1,472
Dividends paid	(139 )	(90 )
Purchases of treasury stock	(2,793 )	(1,815 )
Proceeds from share-based payment activities	3	83
Net cash from financing activities	6,387	150
Changes in cash and cash equivalents	1,071	(405 )
Cash and cash equivalents at beginning of the period	8,023	7,242
Cash and cash equivalents at end of the period	\$9,094	\$6,837
Supplemental cash flow information:		
Non-cash items:		
Net transfers from loans held for investment to loans held for sale	\$397	\$271
Interest paid	1,518	1,321
Income tax paid	1,551	1,117

See Notes to Consolidated Financial Statements.

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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 September 30, 2016, our principal subsidiaries included:

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

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

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

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

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

On December 1, 2015, we completed the acquisition of the Healthcare Financial Services business of General Electric Capital Corporation (“HFS acquisition”). During the second quarter of 2016, we finalized purchase accounting. Including post-closing purchase price adjustments during the first six months of 2016, total cash consideration for the acquisition was \$9.0 billion, including \$180 million of cash acquired, and we recognized approximately \$9.2 billion in assets, primarily consisting of \$8.2 billion in loans, \$134 million in intangible assets and \$518 million in goodwill.

Basis of Presentation and Use of Estimates

The accompanying unaudited 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.

Newly Adopted Accounting Standards

Consolidation: Amendments to the Consolidation Analysis

In February 2015, the Financial Accounting Standards Board (“FASB”) issued revised guidance for evaluating whether organizations should consolidate certain legal entities such as limited partnerships, limited liability corporations and

securitization structures. The guidance also removed the indefinite deferral of specialized guidance for certain investment funds. We adopted the guidance effective in the first quarter of 2016 on a modified retrospective basis. Our adoption of this guidance did not have an impact on our financial condition, results of operations or liquidity. See “Note 6—Variable Interest Entities and Securitizations” for information regarding our involvement with VIEs.

#### Recently Issued but Not Yet Adopted Accounting Standards

##### 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 loans held for investment, securities held to maturity, lease receivables, financial guarantee contracts and certain unconditional loan commitments. 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 impairments (“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.

##### Improvements to Employee Share-Based Accounting

In March 2016, the FASB issued revised guidance for accounting for employee share-based payments, including the accounting for income taxes, forfeitures and statutory tax withholding requirements, as well as classification in the statement of cash flows. The guidance is effective beginning on January 1, 2017, with early adoption permitted. We do not believe the impact of this guidance will be material to our consolidated financial statements.

##### 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 are currently assessing the potential 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 guidance 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. Most revenue associated with financial instruments, including interest and loan origination 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. Subsequent to issuance of the revenue recognition guidance, the FASB has issued several updates, most notably that (i) deferred by one year the effective date for revenue recognition guidance to January 1, 2018, with early adoption permitted effective January 1, 2017; (ii) clarified its guidance for performing the principle-versus-agent analysis; and (iii) clarified guidance for identifying performance obligations allowing entities to ignore immaterial promised goods and services in the context of a contract with a customer. Entities can elect to adopt the guidance either on a full or modified retrospective basis. Full retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the earliest comparative period presented. Modified retrospective adoption will require a cumulative effect adjustment to retained earnings as of the beginning of the reporting period in which the entity first applies the new guidance. We do not plan to early adopt the guidance. We are currently assessing the potential impact of this new guidance on our consolidated financial statements and which transition method we plan to elect.

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## 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 third quarter and first nine months of 2016 and 2015:

Table 2.1: Results of Discontinued Operations

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2015	
(Dollars in millions)	2016	2015	2016	2015
Non-interest income (expense), net	\$ (17)	\$ (7)	\$ (27)	\$ 41
Income (loss) from discontinued operations before income taxes	(17 )	(7 )	(27 )	41
Income tax provision (benefit)	(6 )	(3 )	(10 )	15
Income (loss) from discontinued operations, net of tax	\$ (11)	\$ (4)	\$ (17)	\$ 26

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets which primarily consisted 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” for information related to our retained interests and obligations associated with GreenPoint Credit, LLC manufactured housing operations, and see “Note 14—Commitments, Contingencies, Guarantees and Others” for information related to reserves we have established for our mortgage representation and warranty exposure.

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## NOTE 3—INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise (“Agency”) and non-agency residential mortgage-backed securities (“RMBS”) and 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% and 90% of our total investment securities as of September 30, 2016 and December 31, 2015, respectively.

The table below presents the overview of our investment securities portfolio as of September 30, 2016 and December 31, 2015.

Table 3.1: Overview of Investment Securities Portfolio

(Dollars in millions)	September 30, December 31,	
	2016	2015
Securities available for sale, at fair value	\$ 41,511	\$ 39,061
Securities held to maturity, at carrying value	25,019	24,619
Total investment securities	\$ 66,530	\$ 63,680

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of September 30, 2016 and December 31, 2015.

Table 3.2: Investment Securities Available for Sale

(Dollars in millions)	September 30, 2016			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$5,136	\$ 40	\$ 0	\$5,176
RMBS:				
Agency <sup>(2)</sup>	26,563	335	(70 )	26,828
Non-agency	2,433	395	(6 )	2,822
Total RMBS	28,996	730	(76 )	29,650
CMBS:				
Agency <sup>(2)</sup>	3,492	47	(21 )	3,518
Non-agency	1,697	55	(2 )	1,750
Total CMBS	5,189	102	(23 )	5,268
Other ABS <sup>(3)</sup>	986	5	0	991
Other securities <sup>(4)</sup>	422	6	(2 )	426
Total investment securities available for sale	\$40,729	\$ 883	\$ (101 )	\$41,511

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(Dollars in millions)	December 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$4,664	\$ 5	\$ (9 )	\$4,660
RMBS:				
Agency <sup>(2)</sup>	24,332	165	(212 )	24,285
Non-agency	2,680	368	(22 )	3,026
Total RMBS	27,012	533	(234 )	27,311
CMBS:				
Agency <sup>(2)</sup>	3,690	21	(47 )	3,664
Non-agency	1,723	16	(24 )	1,715
Total CMBS	5,413	37	(71 )	5,379
Other ABS <sup>(3)</sup>	1,345	1	(6 )	1,340
Other securities <sup>(4)</sup>	370	2	(1 )	371
Total investment securities available for sale	\$38,804	\$ 578	\$ (321 )	\$39,061

Includes non-credit-related OTTI that is recorded in accumulated other comprehensive income (“AOCI”) of \$6 million and \$22 million as of September 30, 2016 and December 31, 2015, respectively. All of this amount is related to non-agency RMBS.

<sup>(2)</sup> Includes Federal National Mortgage Corporation (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”) and Government National Mortgage Association (“Ginnie Mae”) guaranteed securities. ABS collateralized by credit card loans constituted approximately 68% and 71% of the other ABS portfolio as of September 30, 2016 and December 31, 2015, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 17% and 11% of the other ABS portfolio as of September 30, 2016 and December 31, 2015, respectively.

<sup>(4)</sup> Includes foreign government bonds 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 September 30, 2016 and December 31, 2015.

Table 3.3: Investment Securities Held to Maturity

(Dollars in millions)	September 30, 2016					
	Amortized Cost	Unrealized Losses Recorded in AOCI <sup>(1)</sup>	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$199	\$ 0	\$199	\$ 1	\$ 0	\$200
Agency RMBS	22,544	(939 )	21,605	1,462	(6 )	23,061
Agency CMBS	3,310	(95 )	3,215	195	0	3,410
Total investment securities held to maturity	\$26,053	\$(1,034 )	\$25,019	\$ 1,658	\$ (6 )	\$26,671
(Dollars in millions)	December 31, 2015					
	Amortized Cost	Unrealized Losses Recorded in AOCI <sup>(1)</sup>	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

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U.S. Treasury securities	\$199	\$0	\$199	\$0	\$ (1	) \$198
Agency RMBS	22,561	(1,048	) 21,513	692	(72	) 22,133
Agency CMBS	3,012	(105	) 2,907	87	(8	) 2,986
Total investment securities held to maturity	\$25,772	\$(1,153	) \$24,619	\$ 779	\$ (81	) \$25,317

(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 September 30, 2016 and December 31, 2015.

Table 3.4: Securities in a Gross Unrealized Loss Position

(Dollars in millions)	September 30, 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
Investment securities available for sale:						
U.S. Treasury securities	\$0	\$ 0	\$0	\$ 0	\$0	\$ 0
RMBS:						
Agency	4,522	(27 )	3,437	(43 )	7,959	(70 )
Non-agency	59	0	202	(6 )	261	(6 )
Total RMBS	4,581	(27 )	3,639	(49 )	8,220	(76 )
CMBS:						
Agency	462	(2 )	870	(19 )	1,332	(21 )
Non-agency	110	0	152	(2 )	262	(2 )
Total CMBS	572	(2 )	1,022	(21 )	1,594	(23 )
Other ABS	71	0	12	0	83	0
Other securities	130	(1 )	20	(1 )	150	(2 )
Total investment securities available for sale in a gross unrealized loss position	\$5,354	\$ (30 )	\$4,693	\$ (71 )	\$10,047	\$ (101 )
	December 31, 2015					
	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	\$3,096	\$ (9 )	\$1	\$ 0	\$3,097	\$ (9 )
RMBS:						
Agency	12,025	(110 )	4,420	(102 )	16,445	(212 )
Non-agency	355	(10 )	155	(12 )	510	(22 )
Total RMBS	12,380	(120 )	4,575	(114 )	16,955	(234 )
CMBS:						
Agency	1,352	(9 )	1,148	(38 )	2,500	(47 )
Non-agency	739	(13 )	330	(11 )	1,069	(24 )
Total CMBS	2,091	(22 )	1,478	(49 )	3,569	(71 )
Other ABS	825	(5 )	255	(1 )	1,080	(6 )
Other securities	250	0	19	(1 )	269	(1 )
Total investment securities available for sale in a gross unrealized loss position	\$18,642	\$ (156 )	\$6,328	\$ (165 )	\$24,970	\$ (321 )

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As of September 30, 2016, the amortized cost of approximately 490 securities available for sale exceeded their fair value by \$101 million, of which \$71 million related to securities that had been in a loss position for 12 months or longer. As of September 30, 2016, our investments in non-agency RMBS and CMBS, other ABS and other securities accounted for \$10 million, or 10%, of total gross unrealized losses on securities available for sale. As of September 30, 2016, the carrying value of approximately 20 securities classified as held to maturity exceeded their fair value by \$6 million.

Gross unrealized losses on our investment securities have decreased since December 31, 2015. 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 September 30, 2016.

Table 3.5: Contractual Maturities of Securities Available for Sale

(Dollars in millions)	September 30, 2016	
	Amortized Cost	Fair Value
Due in 1 year or less	\$1,106	\$ 1,109
Due after 1 year through 5 years	4,201	4,239
Due after 5 years through 10 years	3,136	3,189
Due after 10 years <sup>(1)</sup>	32,286	32,974
Total	\$40,729	\$ 41,511

<sup>(1)</sup> 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)	September 30, 2016	
	Carrying Value	Fair Value
Due after 1 year through 5 years	\$199	\$ 200
Due after 5 years through 10 years	1,362	1,483
Due after 10 years	23,458	24,988
Total	\$25,019	\$ 26,671

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 September 30, 2016.

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

(Dollars in millions)	September 30, 2016				
	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total
Fair value of securities available for sale:					
U.S. Treasury securities	\$803	\$2,879	\$1,494	\$0	\$5,176
RMBS:					
Agency	333	21,314	5,181	0	26,828
Non-agency	31	900	1,478	413	2,822
Total RMBS	364	22,214	6,659	413	29,650
CMBS:					
Agency	45	1,745	1,728	0	3,518
Non-agency	167	732	851	0	1,750
Total CMBS	212	2,477	2,579	0	5,268
Other ABS	223	761	7	0	991
Other securities	186	133	0	107	426
Total securities available for sale	\$1,788	\$28,464	\$10,739	\$520	\$41,511
Amortized cost of securities available for sale	\$1,789	\$28,057	\$10,414	\$469	\$40,729
Weighted-average yield for securities available for sale <sup>(1)</sup>	1.38 %	2.02 %	2.91 %	7.19 %	2.28 %
Carrying value of securities held to maturity:					
U.S. Treasury securities	\$0	\$199	\$0	\$0	\$199
Agency RMBS	64	6,697	12,391	2,453	21,605
Agency CMBS	0	132	2,437	646	3,215
Total securities held to maturity	\$64	\$7,028	\$14,828	\$3,099	\$25,019
Fair value of securities held to maturity	\$63	\$7,338	\$15,844	\$3,426	\$26,671
Weighted-average yield for securities held to maturity <sup>(1)</sup>	2.08 %	2.47 %	2.50 %	3.25 %	2.58 %

(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 September 30, 2016, 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 nine months ended September 30, 2016 and 2015 on investment securities for which we had no intent to sell.

Table 3.8: Credit Impairment Rollforward

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Credit loss component, beginning of period	\$204	\$192	\$199	\$175
Additions:				
Initial credit impairment	0	2	1	7
Subsequent credit impairment	0	3	7	15
Total additions	0	5	8	22
Reductions due to payoffs, disposals, transfers and other	0	(1 )	(3 )	(1 )
Credit loss component, end of period	\$204	\$196	\$204	\$196

## 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 nine months ended September 30, 2016 and 2015. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are classified as held to maturity.

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2016	2015	2016	2015
Realized gains (losses):				
Gross realized gains	\$2	\$3	\$8	\$20
Gross realized losses	(1 )	0	(5 )	(16 )
Net realized gains (losses)	1	3	3	4
OTTI recognized in earnings:				
Credit-related OTTI	0	(5 )	(8 )	(22 )
Intent-to-sell OTTI	0	0	(2 )	(5 )
Total OTTI recognized in earnings	0	(5 )	(10 )	(27 )
Net securities gains (losses)	\$1	\$(2 )	\$(7 )	\$(23 )
Total proceeds from sales	\$828	\$898	\$3,528	\$3,211



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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 \$2.1 billion and \$1.7 billion as of September 30, 2016 and December 31, 2015, respectively. We also pledged securities held to maturity with a carrying value of \$7.4 billion and \$8.7 billion as of September 30, 2016 and December 31, 2015, respectively. Of the total securities pledged as collateral, we have encumbered \$9.0 billion and \$10.6 billion as of September 30, 2016 and December 31, 2015, respectively, primarily related to Public Fund deposits. We accepted pledges of securities with a fair value of \$38 million and \$172 million as of September 30, 2016 and December 31, 2015, respectively, primarily related to our derivative transactions.

## Acquired Credit-Impaired Debt Securities

The table below presents the outstanding balance and carrying value of the acquired credit-impaired debt securities as of September 30, 2016 and December 31, 2015.

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

(Dollars in millions)	September 30, 2016	December 31, 2015
Outstanding balance	\$ 3,001	\$ 3,285
Carrying value	2,351	2,480

## Changes in Accretable Yield of Acquired Credit-Impaired Debt Securities

The following table presents changes in the accretable yield related to the acquired credit-impaired debt securities for the three and nine months ended September 30, 2016.

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

(Dollars in millions)	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2016
Accretable yield, beginning of period	\$ 1,237	\$ 1,237
Accretion recognized in earnings	(49 )	(156 )
Reduction due to payoffs, disposals, transfers and other	0	(2 )
Net reclassifications from nonaccretable difference	13	122
Accretable yield, end of period	\$ 1,201	\$ 1,201

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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 of our 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 2015 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 September 30, 2016 and December 31, 2015. The delinquency aging includes all past due loans, both performing and nonperforming.

Table 4.1: Loan Portfolio Composition and Aging Analysis

(Dollars in millions)	September 30, 2016						
	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
<b>Credit Card:</b>							
Domestic credit card <sup>(1)</sup>	\$87,607	\$1,056	\$764	\$1,528	\$3,348	\$0	\$90,955
International credit card	7,938	119	72	117	308	0	8,246
Total credit card	95,545	1,175	836	1,645	3,656	0	99,201
<b>Consumer Banking:</b>							
Auto	43,486	1,826	799	200	2,825	0	46,311
Home loan	6,775	44	19	144	207	15,466	22,448
Retail banking	3,449	19	9	20	48	29	3,526
Total consumer banking	53,710	1,889	827	364	3,080	15,495	72,285
<b>Commercial Banking:</b>							
Commercial and multifamily real estate	26,419	1	50	8	59	29	26,507
Commercial and industrial	38,381	57	23	346	426	625	39,432
Total commercial lending	64,800	58	73	354	485	654	65,939
Small-ticket commercial real estate	505	5	2	6	13	0	518
Total commercial banking	65,305	63	75	360	498	654	66,457
Other loans	68	2	1	5	8	0	76
Total loans <sup>(2)</sup>	\$214,628	\$3,129	\$1,739	\$2,374	\$7,242	\$16,149	\$238,019
% of Total loans	90.17%	1.31%	0.73%	1.00%	3.04%	% 6.79%	100.00%

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(Dollars in millions)	December 31, 2015						
	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card <sup>(1)</sup>	\$84,954	\$906	\$658	\$1,421	\$2,985	\$0	\$87,939
International credit card	7,903	110	67	106	283	0	8,186
Total credit card	92,857	1,016	725	1,527	3,268	0	96,125
Consumer Banking:							
Auto	38,549	1,901	880	219	3,000	0	41,549
Home loan	6,465	41	18	176	235	18,527	25,227
Retail banking	3,514	21	8	20	49	33	3,596
Total consumer banking	48,528	1,963	906	415	3,284	18,560	70,372
Commercial Banking:							
Commercial and multifamily real estate	25,449	34	0	4	38	31	25,518
Commercial and industrial	35,920	51	34	203	288	927	37,135
Total commercial lending	61,369	85	34	207	326	958	62,653
Small-ticket commercial real estate	607	3	1	2	6	0	613
Total commercial banking	61,976	88	35	209	332	958	63,266
Other loans	77	2	2	7	11	0	88
Total loans <sup>(2)</sup>	\$203,438	\$3,069	\$1,668	\$2,158	\$6,895	\$19,518	\$229,851
% of Total loans	88.51%	1.33%	0.73%	0.94%	3.00	% 8.49%	100.00 %

(1) Includes installment loans of \$9 million and \$16 million as of September 30, 2016 and December 31, 2015, respectively.

Loans (other than PCI loans) include unearned income, unamortized premiums and discounts, and unamortized (2) deferred fees and costs totaling \$515 million and \$499 million as of September 30, 2016 and December 31, 2015, respectively.

We pledge loan collateral at the FHLB to secure borrowing capacity. The outstanding balance of the pledged loans totaled \$30.0 billion and \$36.9 billion as of September 30, 2016 and December 31, 2015, respectively.

Table 4.2 presents the outstanding balance of loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming as of September 30, 2016 and December 31, 2015.

Table 4.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans<sup>(1)</sup>

(Dollars in millions)	September 30, 2016		December 31, 2015	
	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Credit Card:				
Domestic credit card	\$ 1,528	N/A	\$ 1,421	N/A
International credit card	91	\$ 44	79	\$ 53
Total credit card	1,619	44	1,500	53
Consumer Banking:				
Auto	0	200	0	219
Home loan	0	277	0	311
Retail banking	1	37	0	28

Total consumer banking 1 514 0 558

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(Dollars in millions)	September 30, 2016		December 31, 2015	
	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Commercial Banking:				
Commercial and multifamily real estate	\$2	\$ 22	\$0	\$ 7
Commercial and industrial	41	961	5	538
Total commercial lending	43	983	5	545
Small-ticket commercial real estate	0	11	0	5
Total commercial banking	43	994	5	550
Other loans	0	9	0	9
Total	\$1,663	\$ 1,561	\$1,505	\$ 1,170
% of Total loans	0.70%	0.66%	0.65%	0.51%

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 2015 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 on a portfolio basis. The risk in our credit card loan portfolio correlates to broad economic trends, such as unemployment rates and home values, as well as customer liquidity, all of which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time.

The table below displays the geographic profile of our credit card loan portfolio as of September 30, 2016 and December 31, 2015. We also present net charge-offs for the three and nine months ended September 30, 2016 and 2015.

Table 4.3: Credit Card Risk Profile by Geographic Region

(Dollars in millions)	September 30, 2016		December 31, 2015	
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>
Domestic credit card:				
California	\$10,446	10.6%	\$10,029	10.5%
Texas	6,753	6.8	6,344	6.6
New York	6,665	6.7	6,446	6.7
Florida	6,093	6.1	5,712	5.9
Illinois	4,198	4.2	4,121	4.3
Pennsylvania	3,780	3.8	3,764	3.9
Ohio	3,392	3.4	3,371	3.5
New Jersey	3,268	3.3	3,210	3.3
Michigan	2,962	3.0	2,922	3.0
Other	43,398	43.8	42,020	43.8
Total domestic credit card	90,955	91.7	87,939	91.5

International credit card:

Canada	5,302	5.3	4,889	5.1
United Kingdom	2,944	3.0	3,297	3.4
Total international credit card	8,246	8.3	8,186	8.5
Total credit card	\$99,201	100.0%	\$96,125	100.0 %

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

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Table 4.4: Credit Card Net Charge-Offs

	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
(Dollars in millions)	2016	2015	2016	2015
	Amount	Rate	Amount	Rate
Net charge-offs: <sup>(1)</sup>				
Domestic credit card	\$841	3.74%	\$619	3.08%
International credit card	65	3.18	36	1.80
Total credit card	\$906	3.70	\$655	2.96

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 for each loan category by dividing annualized net charge-offs by average balance of loans held for investment for the period. 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 customer liquidity, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio.

The table below displays the geographic profile of our consumer banking loan portfolio, including PCI loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio as of September 30, 2016 and December 31, 2015, as well as net charge-offs for the three and nine months ended September 30, 2016 and 2015.

Table 4.5: Consumer Banking Risk Profile by Geographic Region

	September 30,		December 31,	
	2016		2015	
(Dollars in millions)	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>
Auto:				
Texas	\$6,096	8.4%	\$5,463	7.8%
California	5,290	7.3	4,611	6.5
Florida	3,841	5.3	3,315	4.7
Georgia	2,425	3.4	2,245	3.2
Louisiana	2,108	2.9	1,882	2.7
Illinois	2,008	2.8	1,859	2.6
Ohio	1,929	2.7	1,738	2.5
Other	22,614	31.2	20,436	29.0
Total auto	46,311	64.0	41,549	59.0
Home loan:				
California	5,183	7.2	5,884	8.4
New York	2,032	2.8	2,171	3.1
Maryland	1,450	2.0	1,539	2.2
Illinois	1,290	1.8	1,490	2.1
Virginia	1,241	1.7	1,354	1.9

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New Jersey	1,158	1.6	1,293	1.8
Louisiana	1,017	1.4	1,146	1.6
Other	9,077	12.6	10,350	14.8
Total home loan	22,448	31.1	25,227	35.9

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(Dollars in millions)	September 30, 2016		December 31, 2015		
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	
Retail banking:					
Louisiana	\$1,041	1.4	% \$1,071	1.5	%
New York	922	1.3	921	1.3	
Texas	765	1.1	757	1.1	
New Jersey	234	0.3	259	0.4	
Maryland	187	0.3	180	0.3	
Virginia	155	0.2	151	0.2	
Other	222	0.3	257	0.3	
Total retail banking	3,526	4.9	3,596	5.1	
Total consumer banking	\$72,285	100.0%	\$70,372	100.0%	

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

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

(Dollars in millions)	Three Months Ended September 30,				Nine Months Ended September 30,			
	2016		2015		2016		2015	
	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
Net charge-offs:								
Auto	\$210	1.85%	\$188	1.85%	\$508	1.55%	\$457	1.54%
Home loan <sup>(2)</sup>	1	0.03	1	0.01	9	0.05	6	0.03
Retail banking	16	1.75	14	1.53	39	1.46	35	1.30
Total consumer banking <sup>(2)</sup>	\$227	1.26	\$203	1.14	\$556	1.04	\$498	0.93
(Dollars in millions)	September 30, 2016		December 31, 2015					
	Amount	Rate <sup>(3)</sup>	Amount	Rate <sup>(3)</sup>				
Nonperforming loans:								
Auto	\$200	0.43%	\$219	0.53%				
Home loan <sup>(4)</sup>	277	1.23	311	1.23				
Retail banking	37	1.05	28	0.77				
Total consumer banking <sup>(4)</sup>	\$514	0.71	\$558	0.79				

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

Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.08% and 1.62%, respectively, for the three months ended September 30, 2016, compared to

(2) 0.05% and 1.58%, respectively, for the three months ended September 30, 2015; and 0.18% and 1.37%, respectively, for the nine months ended September 30, 2016, compared to 0.11% and 1.33%, respectively, for the nine months ended September 30, 2015.

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

(4)

Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 3.97% and 0.90%, respectively, as of September 30, 2016, compared to 4.68% and 1.08%, respectively, as of December 31, 2015.

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## Home Loan

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

The following table presents the distribution of our home loan portfolio as of September 30, 2016 and December 31, 2015, based on selected key risk characteristics.

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

(Dollars in millions)	September 30, 2016					
	Loans		PCI Loans <sup>(3)</sup>		Total Home Loans	
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>
Origination year: <sup>(2)</sup>						
<= 2007	\$2,200	9.7%	\$7,835	35.0%	\$10,035	44.7%
2008	139	0.7	2,410	10.7	2,549	11.4
2009	86	0.4	1,182	5.3	1,268	5.7
2010	86	0.4	1,726	7.7	1,812	8.1
2011	150	0.7	1,870	8.3	2,020	9.0
2012	1,047	4.7	298	1.3	1,345	6.0
2013	492	2.1	62	0.3	554	2.4
2014	595	2.7	31	0.1	626	2.8
2015	1,064	4.7	32	0.1	1,096	4.8
2016	1,123	5.0	20	0.1	1,143	5.1
Total	\$6,982	31.1%	\$15,466	68.9%	\$22,448	100.0%
Geographic concentration: <sup>(4)</sup>						
California	\$908	4.0%	\$4,275	19.0%	\$5,183	23.0%
New York	1,293	5.8	739	3.3	2,032	9.1
Maryland	574	2.6	876	3.9	1,450	6.5
Illinois	101	0.4	1,189	5.3	1,290	5.7
Virginia	478	2.1	763	3.4	1,241	5.5
New Jersey	374	1.7	784	3.5	1,158	5.2
Louisiana	993	4.4	24	0.1	1,017	4.5
Florida	157	0.7	828	3.7	985	4.4
Arizona	90	0.4	845	3.8	935	4.2
Texas	690	3.1	107	0.5	797	3.6
Other	1,324	5.9	5,036	22.4	6,360	28.3
Total	\$6,982	31.1%	\$15,466	68.9%	\$22,448	100.0 %
Lien type:						
1 <sup>st</sup> lien	\$5,993	26.7%	\$15,184	67.6%	\$21,177	94.3%
2 <sup>nd</sup> lien	989	4.4	282	1.3	1,271	5.7
Total	\$6,982	31.1%	\$15,466	68.9%	\$22,448	100.0%
Interest rate type:						

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Fixed rate	\$3,175	14.1%	\$1,936	8.6%	\$5,111	22.7%
Adjustable rate	3,807	17.0	13,530	60.3	17,337	77.3
Total	\$6,982	31.1%	\$15,466	68.9%	\$22,448	100.0%

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(Dollars in millions)	December 31, 2015					
	Loans		PCI Loans <sup>(3)</sup>		Total Home Loans	
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>
Origination year: <sup>(2)</sup>						
< = 2007	\$2,559	10.1%	\$8,956	35.5%	\$11,515	45.6%
2008	157	0.6	2,866	11.4	3,023	12.0
2009	97	0.4	1,498	5.9	1,595	6.3
2010	97	0.4	2,208	8.8	2,305	9.2
2011	176	0.7	2,476	9.8	2,652	10.5
2012	1,276	5.1	389	1.5	1,665	6.6
2013	557	2.2	71	0.3	628	2.5
2014	680	2.7	31	0.1	711	2.8
2015	1,101	4.4	32	0.1	1,133	4.5
Total	\$6,700	26.6%	\$18,527	73.4%	\$25,227	100.0%
Geographic concentration: <sup>(4)</sup>						
California	\$871	3.5%	\$5,013	19.9%	\$5,884	23.4%
New York	1,295	5.1	876	3.5	2,171	8.6
Maryland	511	2.0	1,028	4.1	1,539	6.1
Illinois	89	0.4	1,401	5.5	1,490	5.9
Virginia	428	1.7	926	3.7	1,354	5.4
New Jersey	353	1.4	940	3.7	1,293	5.1
Louisiana	1,069	4.2	27	0.1	1,096	4.3
Florida	157	0.6	989	3.9	1,146	4.5
Arizona	81	0.4	995	3.9	1,076	4.3
Washington	113	0.4	806	3.2	919	3.6
Other	1,733	6.9	5,526	21.9	7,259	28.8
Total	\$6,700	26.6%	\$18,527	73.4%	\$25,227	100.0 %
Lien type:						
1 <sup>st</sup> lien	\$5,705	22.6%	\$18,207	72.2%	\$23,912	94.8%
2 <sup>nd</sup> lien	995	4.0	320	1.2	1,315	5.2
Total	\$6,700	26.6%	\$18,527	73.4%	\$25,227	100.0%
Interest rate type:						
Fixed rate	\$2,751	10.9%	\$2,264	9.0%	\$5,015	19.9%
Adjustable rate	3,949	15.7	16,263	64.4	20,212	80.1
Total	\$6,700	26.6%	\$18,527	73.4%	\$25,227	100.0%

(1) Percentages within each risk category are calculated based on period-end amounts.

(2) Modified loans are reported in the origination year of the initial borrowing.

(3) The PCI loan balances with an origination date in the years subsequent to 2012 represent refinancing of previously acquired home loans.

(4) States listed represent those that have the highest individual concentration of home loans.

Our recorded investment in home loans that are in process of foreclosure was \$377 million and \$474 million as of September 30, 2016 and December 31, 2015, respectively. We commence the foreclosure process on home loans when a borrower becomes at least 120 days delinquent in accordance with Consumer Financial Protection Bureau

regulations. Foreclosure procedures and timelines vary according to state laws. As of September 30, 2016 and December 31, 2015, the carrying value of the foreclosed residential real estate properties we hold and report as other assets on our consolidated balance sheets totaled \$75 million and \$123 million, respectively.

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## Commercial Banking

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

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

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

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

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

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of September 30, 2016 and December 31, 2015.

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

(Dollars in millions)	September 30, 2016							
	Commercial and Multifamily Real Estate	% of Total <sup>(1)</sup>	Commercial and Industrial	% of Total <sup>(1)</sup>	Small-ticket Commercial Real Estate	% of Total <sup>(1)</sup>	Total Commercial Banking	% of Total <sup>(1)</sup>
Geographic concentration: <sup>(2)</sup>								
Northeast	\$ 15,858	59.8%	\$ 8,933	22.7%	\$ 320	61.7%	\$ 25,111	37.8%
Mid-Atlantic	3,187	12.0	3,707	9.4	19	3.7	6,913	10.4
South	3,913	14.8	15,416	39.1	35	6.8	19,364	29.1
Other	3,549	13.4	11,376	28.8	144	27.8	15,069	22.7
Total	\$26,507	100.0%	\$ 39,432	100.0%	\$ 518	100.0%	\$ 66,457	100.0%
Internal risk rating: <sup>(3)</sup>								
Noncriticized	\$26,223	98.9%	\$ 35,609	90.3%	\$ 504	97.3%	\$ 62,336	93.8%
Criticized performing	233	0.9	2,237	5.7	3	0.6	2,473	3.7
Criticized nonperforming	22	0.1	961	2.4	11	2.1	994	1.5
PCI loans <sup>(4)</sup>	29	0.1	625	1.6	0	0.0	654	1.0
Total	\$26,507	100.0%	\$ 39,432	100.0	% \$ 518	100.0%	\$ 66,457	100.0%



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(Dollars in millions)	December 31, 2015							
	Commercial and Multifamily Real Estate	% of Total <sup>(1)</sup>	Commercial and Industrial	% of Total <sup>(1)</sup>	Small-ticket Commercial Real Estate	% of Total <sup>(1)</sup>	Total Commercial Banking	% of Total <sup>(1)</sup>
Geographic concentration: <sup>(2)</sup>								
Northeast	\$ 15,949	62.5%	\$ 8,074	21.8%	\$ 376	61.3%	\$ 24,399	38.6%
Mid-Atlantic	2,797	11.0	3,010	8.1	25	4.1	5,832	9.2
South	4,070	15.9	15,240	41.0	40	6.5	19,350	30.6
Other	2,702	10.6	10,811	29.1	172	28.1	13,685	21.6
Total	\$25,518	100.0%	\$ 37,135	100.0%	\$ 613	100.0%	\$ 63,266	100.0%
Internal risk rating: <sup>(3)</sup>								
Noncriticized	\$25,130	98.5%	\$ 34,008	91.6%	\$ 605	98.7%	\$ 59,743	94.4%
Criticized performing	350	1.4	1,662	4.5	3	0.5	2,015	3.2
Criticized nonperforming	7	0.0	538	1.4	5	0.8	550	0.9
PCI loans <sup>(4)</sup>	31	0.1	927	2.5	0	0.0	958	1.5
Total	\$25,518	100.0%	\$ 37,135	100.0%	\$ 613	100.0%	\$ 63,266	100.0%

(1) Percentages calculated based on total loans held for investment in each respective loan category using period-end amounts.

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

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

(4) We evaluate PCI loans based on their actual risk ratings. Were these PCI loans classified based on their risk ratings, \$348 million and \$128 million would have been classified as Noncriticized, \$281 million and \$793 million as Criticized performing, and \$25 million and \$37 million as Criticized nonperforming as of September 30, 2016 and December 31, 2015, respectively.

**Impaired Loans**

The following table presents information about our impaired loans, excluding PCI loans, which are reported separately as of September 30, 2016 and December 31, 2015, and for the three and nine months ended September 30, 2016 and 2015:

Table 4.9: Impaired Loans<sup>(1)</sup>

(Dollars in millions)	September 30, 2016					
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
<b>Credit Card:</b>						
Domestic credit card	\$ 539	\$ 0	\$ 539	\$ 171	\$ 368	\$ 524
International credit card	133	0	133	65	68	129
Total credit card <sup>(2)</sup>	672	0	672	236	436	653
<b>Consumer Banking:</b>						

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Auto <sup>(3)</sup>	302	202	504	25	479	782
Home loan	239	115	354	18	336	442
Retail banking	54	14	68	17	51	75
Total consumer banking	595	331	926	60	866	1,299
Commercial Banking:						
Commercial and multifamily real estate	96	8	104	10	94	109
Commercial and industrial	1,256	78	1,334	169	1,165	1,573
Total commercial lending	1,352	86	1,438	179	1,259	1,682
Small-ticket commercial real estate	11	0	11	0	11	14
Total commercial banking	1,363	86	1,449	179	1,270	1,696
Total	\$2,630	\$ 417	\$ 3,047	\$ 475	\$ 2,572	\$ 3,648

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(Dollars in millions)	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
	Average Recorded Investment	Interest Recognized	Average Recorded Investment	Interest Recognized
<b>Credit Card:</b>				
Domestic credit card	\$ 528	\$ 15	\$ 530	\$ 43
International credit card	135	3	132	8
Total credit card <sup>(2)</sup>	663	18	662	51
<b>Consumer Banking:</b>				
Auto <sup>(3)</sup>	498	21	495	64
Home loan	358	2	362	4
Retail banking	60	0	62	1
Total consumer banking	916	23	919	69
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	128	0	111	2
Commercial and industrial	1,277	4	1,171	9
Total commercial lending	1,405	4	1,282	11
Small-ticket commercial real estate	8	0	8	0
Total commercial banking	1,413	4	1,290	11
Total	\$ 2,992	\$ 45	\$ 2,871	\$ 131

## December 31, 2015

(Dollars in millions)	With	Without	Total	Related	Net	Unpaid
	an Allowance	an Allowance	Recorded Investment	Allowance	Recorded Investment	Principal Balance
<b>Credit Card:</b>						
Domestic credit card	\$ 541	\$ 0	\$ 541	\$ 150	\$ 391	\$ 526
International credit card	125	0	125	59	66	121
Total credit card <sup>(2)</sup>	666	0	666	209	457	647
<b>Consumer Banking:</b>						
Auto <sup>(3)</sup>	273	215	488	22	466	772
Home loan	229	136	365	18	347	456
Retail banking	51	10	61	14	47	62
Total consumer banking	553	361	914	54	860	1,290
<b>Commercial Banking:</b>						
Commercial and multifamily real estate	82	3	85	11	74	88
Commercial and industrial	515	278	793	75	718	862
Total commercial lending	597	281	878	86	792	950
Small-ticket commercial real estate	6	0	6	0	6	7
Total commercial banking	603	281	884	86	798	957
Total	\$ 1,822	\$ 642	\$ 2,464	\$ 349	\$ 2,115	\$ 2,894

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(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30, 2015		September 30, 2015	
	Average	Interest	Average	Interest
	Recorded	Income	Recorded	Income
	Investment	Recognized	Investment	Recognized
<b>Credit Card:</b>				
Domestic credit card	\$535	\$ 15	\$538	\$ 43
International credit card	133	2	137	7
Total credit card <sup>(2)</sup>	668	17	675	50
<b>Consumer Banking:</b>				
Auto <sup>(3)</sup>	468	20	456	61
Home loan	360	2	363	4
Retail banking	55	0	55	1
Total consumer banking	883	22	874	66
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	112	0	115	2
Commercial and industrial	388	0	385	2
Total commercial lending	500	0	500	4
Small-ticket commercial real estate	8	0	7	0
Total commercial banking	508	0	507	4
<b>Total</b>	<b>\$2,059</b>	<b>\$ 39</b>	<b>\$2,056</b>	<b>\$ 120</b>

Impaired loans include loans modified in troubled debt restructurings (“TDRs”), all nonperforming commercial loans and nonperforming home loans with a specific impairment. Impaired loans without an allowance generally

(1) represent loans that have been charged down to the fair value of the underlying collateral for which we believe no additional losses have been incurred, or where the fair value of the underlying collateral meets or exceeds the loan’s amortized cost.

(2) The average recorded investment of credit card loans includes finance charges and fees.

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

The total recorded investment of loans modified in TDRs represents \$2.3 billion and \$1.8 billion of the impaired loans presented above as of September 30, 2016 and December 31, 2015, respectively. Consumer TDRs classified as performing totaled \$1.1 billion and \$1.0 billion as of September 30, 2016 and December 31, 2015, respectively. Commercial TDRs classified as performing totaled \$455 million and \$334 million as of September 30, 2016 and December 31, 2015, respectively.

As part of our loan modification programs to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the major modification types, recorded investment amounts and financial effects of loans modified in TDRs during the three and nine months ended September 30, 2016 and 2015:

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Table 4.10: Troubled Debt Restructurings

(Dollars in millions)	Total Loans Modified <sup>(1)(2)</sup>	Three Months Ended September 30, 2016			Balance Reduction		
		Reduced Interest Rate	Term Extension	Average	% of TDR	Gross Balance	
		% of TDR Activity <sup>(3)(4)</sup>	Average Rate Reduction <sup>(5)</sup>	% of TDR Activity <sup>(4)(6)</sup>	Average Term Extension (Months) <sup>(7)</sup>	% of TDR Activity <sup>(4)(8)</sup>	Reduction <sup>(9)</sup>
Credit Card:							
Domestic credit card	\$ 88	100%	13.12%	0%	0	0%	\$ 0
International credit card	35	100	25.91	0	0	0	0
Total credit card	123	100	16.69	0	0	0	0
Consumer Banking:							
Auto							