

CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 02, 2015

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

FORM 10-Q

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

For the quarterly period ended September 30, 2015

OR

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

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

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

Delaware
(State or Other Jurisdiction of
Incorporation or Organization)

54-1719854
(I.R.S. Employer
Identification No.)

1680 Capital One Drive,
McLean, Virginia
(Address of Principal Executive Offices)

22102
(Zip Code)

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

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

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

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

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

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

As of October 30, 2015, there were 532,045,252 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.

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PART I—FINANCIAL INFORMATION

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

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

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is provided as a supplement to, and should be read in conjunction with, our unaudited consolidated financial statements and related notes in this Report and the more detailed information contained in our 2014 Form 10-K.

INTRODUCTION

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

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

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

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

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

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

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

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

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

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Recent Acquisitions and Dispositions

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

On August 11, 2015, we announced the signing of a definitive agreement with General Electric Capital Corporation (“GE”) to acquire approximately \$8.5 billion of healthcare-related loans and its Healthcare Financial Services business. We expect to complete the acquisition in the fourth quarter of 2015, subject to customary closing conditions.

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 2015 and 2014, and selected comparative balance sheet data as of September 30, 2015 and December 31, 2014. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been recast to conform to the current period presentation.

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

(Dollars in millions, except per share data and as noted)	Three Months Ended			Nine Months Ended		
	September 30, 2015	September 30, 2014	Change	September 30, 2015	September 30, 2014	Change
Income statement						
Net interest income	\$4,760	\$4,497	6%	\$13,873	\$13,162	5%
Non-interest income	1,140	1,142	—	3,346	3,315	1
Total net revenue	5,900	5,639	5	17,219	16,477	5
Provision for credit losses	1,092	993	10	3,156	2,432	30
Non-interest expense:						
Marketing	418	392	7	1,180	1,052	12
Amortization of intangibles	106	130	(18)	327	409	(20)
Operating expenses	2,636	2,463	7	8,009	7,435	8
Total non-interest expense	3,160	2,985	6	9,516	8,896	7
Income from continuing operations before income taxes	1,648	1,661	(1)	4,547	5,149	(12)
Income tax provision	530	536	(1)	1,443	1,696	(15)
Income from continuing operations, net of tax	1,118	1,125	(1)	3,104	3,453	(10)
(Loss) income from discontinued operations, net of tax	(4)	(44)	(91)	26	(24)	**
Net income	1,114	1,081	3	3,130	3,429	(9)
Dividends and undistributed earnings allocated to participating securities	(6)	(5)	20	(16)	(14)	14
Preferred stock dividends	(29)	(20)	45	(90)	(46)	96
Net income available to common stockholders	\$1,079	\$1,056	2	\$3,024	\$3,369	(10)
Common share statistics						
Basic earnings per common share:						
Net income from continuing operations	\$2.01	\$1.97	2%	\$5.49	\$5.99	(8)%
(Loss) income from discontinued operations	(0.01)	(0.08)	(88)	0.05	(0.04)	**
Net income per basic common share	\$2.00	\$1.89	6	\$5.54	\$5.95	(7)
Diluted earnings per common share:						
Net income from continuing operations	\$1.99	\$1.94	3	\$5.43	\$5.90	(8)
(Loss) income from discontinued operations	(0.01)	(0.08)	(88)	0.05	(0.04)	**
Net income per diluted common share	\$1.98	\$1.86	6	\$5.48	\$5.86	(6)

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Weighted-average common shares outstanding (in millions):

Basic	540.6	559.9	(3)	545.5	566.1	(4)
Diluted	546.3	567.9	(4)	551.9	575.2	(4)
Common shares outstanding (period end, in millions)	534.9	558.5	(4)	534.9	558.5	(4)
Dividends paid per common share	\$0.40	\$0.30	33	\$1.10	\$0.90	22
Tangible book value per common share (period end)	54.66	48.72	12	54.66	48.72	12

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Capital One Financial Corporation
(COF)

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(Dollars in millions, except per share data and as noted)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
Balance sheet (average balances)						
Loans held for investment	\$211,227	\$199,422	6%	\$207,608	\$196,068	6%
Interest-earning assets	283,082	268,890	5	279,388	265,065	5
Total assets	313,822	298,913	5	310,146	295,506	5
Interest-bearing deposits	185,800	179,928	3	184,258	181,587	1
Total deposits	210,974	205,199	3	209,334	205,783	2
Borrowings	45,070	40,314	12	44,264	37,332	19
Common equity	45,407	43,489	4	44,956	42,772	5
Total stockholders' equity	48,456	44,827	8	47,376	43,828	8
Selected performance metrics						
Purchase volume ⁽²⁾	\$69,875	\$57,474	22%	\$195,817	\$161,266	21%
Total net revenue margin ⁽³⁾	8.34%	8.39%	(5)bps	8.22%	8.29%	(7)bps
Net interest margin ⁽⁴⁾	6.73	6.69	4	6.62	6.62	—
Return on average assets	1.43	1.51	(8)	1.33	1.56	(23)
Return on average tangible assets ⁽⁵⁾	1.50	1.59	(9)	1.40	1.64	(24)
Return on average common equity ⁽⁶⁾	9.54	10.12	(58)	8.89	10.58	(169)
Return on average tangible common equity ⁽⁷⁾	14.33	15.73	(140)	13.46	16.66	(320)
Equity-to-assets ratio	15.44	15.00	44	15.28	14.83	45
Non-interest expense as a percentage of average loans held for investment ⁽⁸⁾	5.98	5.99	(1)	6.11	6.05	6
Efficiency ratio ⁽⁹⁾	53.56	52.93	63	55.26	53.99	127
Effective income tax rate from continuing operations	32.2	32.3	(10)	31.7	32.9	(120)
Net charge-offs	\$890	\$756	18%	\$2,617	\$2,499	5%
Net charge-off rate ⁽¹⁰⁾	1.69%	1.52%	17 bps	1.68%	1.70%	(2)bps
Net charge-off rate (excluding Acquired Loans) ⁽¹¹⁾	1.86	1.73	13	1.87	1.96	(9)
(Dollars in millions, except as noted)						
				September 30, 2015	December 31, 2014	Change
Balance sheet (period end)						
Loans held for investment				\$ 213,329	\$ 208,316	2%
Interest-earning assets				283,073	277,849	2
Total assets				313,700	308,167	2
Interest-bearing deposits				187,848	180,467	4
Total deposits				212,903	205,548	4
Borrowings				42,778	48,457	(12)
Common equity				44,391	43,231	3
Total stockholders' equity				47,685	45,053	6
Credit quality metrics (period end)						
Allowance for loan and lease losses				\$ 4,847	\$ 4,383	11%
Allowance as a percentage of loans held for investment (“allowance coverage ratio”)				2.27%	2.10%	17 bps
Allowance as a percentage of loans held for investment (excluding Acquired Loans) ⁽¹¹⁾				2.49	2.36	13

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30+ day performing delinquency rate	2.63	2.62	1	
30+ day performing delinquency rate (excluding Acquired Loans) ⁽¹¹⁾	2.90	2.95	(5)
30+ day delinquency rate	2.95	2.91	4	
30+ day delinquency rate (excluding Acquired Loans) ⁽¹¹⁾	3.25	3.28	(3)
Capital ratios				
Common equity Tier 1 capital ratio	12.1%	12.5%	(40)bps
Tier 1 risk-based capital ratio	13.4	13.2	20	
Total risk-based capital ratio	15.1	15.1	—	
Tier 1 leverage ratio	11.1	10.8	30	
Tangible common equity ratio ⁽¹²⁾	9.8	9.5	30	
Supplementary leverage ratio ⁽¹³⁾	9.6	N/A	**	
Other				
Employees (in thousands), period end	46.9	46.0	2%	

**Change is not meaningful.

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

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

(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) 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.

(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.

(7) Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average 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.

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

The tangible common equity (“TCE”) ratio is a non-GAAP measure calculated as TCE divided by tangible assets.

(12) See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for the calculation of this measure and reconciliation to the comparative GAAP measure.

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

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

We reported net income of \$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. In comparison, we reported net income of \$1.1 billion (\$1.86 per diluted common share) on total net revenue of \$5.6 billion and net income of \$3.4 billion (\$5.86 per diluted common share) on total net revenue of \$16.5 billion for the third quarter and first nine months of 2014, respectively.

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

On March 11, 2015, we announced that our Board of Directors authorized the repurchase of up to \$3.125 billion of shares of our common stock (the “2015 Stock Repurchase Program”). Through the end of the third quarter of 2015, we repurchased approximately \$1.3 billion of common stock as part of this program and expect to complete the 2015

Stock Repurchase Program by the end of the second quarter of 2016. See “Capital Management” below for additional information.

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

Total Company Performance

Earnings: Our net income increased by \$33 million to \$1.1 billion in the third quarter of 2015, compared to the third quarter of 2014, and decreased by \$299 million to \$3.1 billion in the first nine months of 2015, compared to the first nine months of 2014. The decrease in net income from continuing operations in the first nine months of 2015 was driven by (i) an increase in the provision for credit losses due to an allowance build in our credit card loan portfolio in 2015 as a result of continued loan growth and higher loss expectations on recent loan originations compared to an allowance release in the first nine months of 2014; and (ii) an increase in non-interest expense driven by higher operating and marketing expenses associated with loan growth, and continued technology and infrastructure investments. We recorded a build in the U.K. Payment Protection Insurance customer refund reserve (“U.K. PPI Reserve”) of \$69 million in the third quarter of 2015 and \$78

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million in the second quarter of 2015, reflecting recent U.K. regulatory developments and our updated estimate of future complaint levels. In the second quarter of 2015, we also recorded restructuring charges of \$157 million for severance and related benefits pursuant to our ongoing benefit programs, which included \$147 million as a result of the realignment of our workforce. These drivers were partially offset by (i) higher interest income due to growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase in non-interest income primarily attributable to higher net interchange fees, partially offset by lower customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business and the build in our U.K. PPI Reserve in our International Card business. The increase in net income from discontinued operations in the first nine months of 2015 was primarily driven by a reduction in our mortgage representation and warranty reserve in the second quarter of 2015 resulting from favorable industry legal developments.

Loans Held for Investment: Period-end loans held for investment increased by \$5.0 billion to \$213.3 billion as of September 30, 2015 from December 31, 2014. Average loans held for investment increased by \$11.8 billion to \$211.2 billion in the third quarter of 2015, compared to the third quarter of 2014, and increased by \$11.5 billion to \$207.6 billion in the first nine months of 2015. The increases were primarily driven by continued loan growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio.

Net Charge-off and Delinquency Statistics: Our net charge-off rate increased by 17 basis points to 1.69% in the third quarter of 2015, compared to the third quarter of 2014, primarily driven by rising losses due to the seasoning of recent credit card loan originations. Our net charge-off rate decreased by 2 basis points to 1.68%, in the first nine months of 2015, compared to the first nine months of 2014, primarily due to higher average loan balances in 2015. Net charge-off rates remained low compared to our historical trends due to continued economic improvement and the seasoned nature of our overall credit card loan portfolio. Our 30+ day delinquency rate increased by 4 basis points to 2.95% as of September 30, 2015, from 2.91% as of December 31, 2014, primarily attributable to higher delinquencies due to the seasoning of recent credit card loan originations. We provide additional information on our credit quality metrics below under “Business Segment Financial Performance” and “Credit Risk Profile.”

Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by \$464 million to \$4.8 billion as of September 30, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by continued loan growth, coupled with our expectations for rising charge-off rates in our domestic credit card portfolio, as well as adverse market conditions impacting our oil and gas portfolios and the taxi-lending component of our transportation loan portfolio within our Commercial Banking business. These factors also contributed to a higher allowance coverage ratio, which increased by 17 basis points to 2.27% as of September 30, 2015 from December 31, 2014.

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 2015 and 2014. We provide information on the allocation methodologies used to derive our business segment results under “Note 19—Business Segments” in our 2014 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the United States of America (“U.S. GAAP”) results in “Note 13—Business Segments” of this Report.

Table 2: Business Segment Results

(Dollars in millions)	Three Months Ended September 30, 2015				2014			
	Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾		Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾	
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total

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Credit Card	\$3,724	63%	\$670	60%	\$3,473	62%	\$624	55%
Consumer Banking	1,617	27	273	25	1,604	28	289	26
Commercial Banking ⁽³⁾	562	10	137	12	561	10	182	16
Other ⁽⁴⁾	(3)	—	38	3	1	—	30	3
Total from continuing operations	\$5,900	100	% \$1,118	100%	\$5,639	100%	\$1,125	100%

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Capital One Financial Corporation
(COF)

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(Dollars in millions)	Nine Months Ended September 30,						2014					
	2015			2014			2014			2014		
	Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾	Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾	Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾	Total Net Revenue (Loss) ⁽¹⁾		Net Income ⁽²⁾
	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	\$ 10,684	62 %	\$ 1,801	58 %	\$ 10,083	61 %	\$ 1,960	57 %	\$ 10,083	61 %	\$ 1,960	57 %
Consumer Banking	4,849	28	830	27	4,788	29	953	28	4,788	29	953	28
Commercial Banking ⁽³⁾	1,726	10	464	15	1,614	10	490	14	1,614	10	490	14
Other ⁽⁴⁾	(40)	—	9	—	(8)	—	50	1	(8)	—	50	1
Total from continuing operations	\$ 17,219	100 %	\$ 3,104	100 %	\$ 16,477	100 %	\$ 3,453	100 %	\$ 16,477	100 %	\$ 3,453	100 %

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

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

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

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

Credit Card: Our Credit Card business generated net income from continuing operations of \$670 million and \$1.8 billion in the third quarter and first nine months of 2015, respectively, compared to net income from continuing operations of \$624 million and \$2.0 billion in the third quarter and first nine months of 2014, respectively. The decrease in net income in the first nine months of 2015 was due to (i) higher provision for credit losses driven by an allowance build as a result of continued loan growth, coupled with our expectations for rising charge-off rates in our Domestic Card business, compared to an allowance release in the first nine months of 2014; and (ii) higher non-interest expense due to higher operating and marketing expenses associated with loan growth and a build in our U.K. PPI Reserve. These drivers were partially offset by (i) higher net interest income primarily driven by loan growth; and (ii) higher non-interest income attributable to an increase in net interchange fees partially offset by a decline in customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business and a build in our U.K. PPI Reserve. Period-end loans held for investment increased by \$4.3 billion to \$90.1 billion as of September 30, 2015 from December 31, 2014, primarily due to loan growth in the Domestic Card business.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of \$273 million and \$830 million in the third quarter and first nine months of 2015, respectively, compared to net income from continuing operations of \$289 million and \$953 million in the third quarter and first nine months of 2014, respectively. The decrease in net income in the first nine months of 2015 was primarily attributable to a higher provision for credit losses due to a higher allowance build and higher net charge-offs in our auto loan portfolio, as well as higher non-interest expense largely driven by increases in technology and infrastructure spending in our retail banking business and operating expenses due to growth in our auto loan portfolio. The decrease was partially offset by higher revenue generated by growth in our auto loan portfolio, which was partially offset by the planned run-off of the acquired home loan portfolio and margin compression in auto loans. Period-end loans held for investment decreased by \$449 million to \$71.0 billion as of September 30, 2015 from December 31, 2014, primarily due to the planned run-off of our acquired home loan portfolio, partially offset by the growth in the auto loan portfolio.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of \$137 million and \$464 million in the third quarter and first nine months of 2015, respectively, compared to net income from

continuing operations of \$182 million and \$490 million in the third quarter and first nine months of 2014, respectively. The decrease in net income in the first nine months of 2015 was primarily attributable to a higher provision for credit losses due to a larger build in both the allowance and reserve for unfunded lending commitments, and higher net charge-offs resulting from adverse market conditions impacting our oil and gas portfolios and the taxi-lending component of our transportation loan portfolio, as well as higher non-interest expense largely driven by higher operating expenses associated with continued growth in our Commercial Banking business. This was partially offset by higher net interest income driven by an increase in our average commercial loan portfolio and increased non-interest income driven by increased revenue from fee-based services and products related to our multifamily finance business. Period-end loans held for investment increased by \$1.2 billion to \$52.1 billion as of September 30, 2015 from December 31, 2014, driven by loan growth in the commercial and industrial and commercial and multifamily real estate loan portfolios.

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Business Outlook

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

Total Company Expectations

We delivered attractive risk-adjusted returns in the third quarter of 2015, highlighted by strong growth in our Domestic Card business. We continue to expect the full-year 2015 efficiency ratio to be around 55%, excluding adjusting items. We expect modest improvement in the full-year 2016 efficiency ratio. We believe we are positioned to deliver attractive shareholder returns over the long term, with growth potential and sustained returns at the higher end of banks, as well as significant capital distribution, subject to regulatory approval.

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

Business Segment Expectations

Credit Card: In our Domestic Card business, we expect the quarterly charge-off rate to be in the mid-to-high three percent range in the fourth quarter. In 2016, we expect the full-year charge-off rate to be around four percent, 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.

Consumer Banking: We expect persistently low interest rates will continue to pressure returns in our deposit businesses, even if rates begin to rise in 2016. We expect this pressure, along with other headwinds, including the planned run-off in our acquired home loan portfolio and revenue margin compression in our auto business due to continuing competitive pressure and the shift toward prime loans, to have a negative impact on revenue and the efficiency ratio for the remainder of 2015 and in 2016.

Commercial Banking: Growth in our Commercial Banking business has slowed compared to prior periods because of actions we are taking in response to market conditions. While increasing competition continues to put pressure on loan terms and pricing in our commercial real estate and commercial and industrial loan portfolios, we continue to see good growth opportunities in select specialty industry verticals.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses on the consolidated financial statements. Understanding our accounting policies and the extent to which we use management

judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K.

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

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

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

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

ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Derivative Assets and Liabilities

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

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 2015 and 2014. Following this section, we provide a discussion of our business segment results. You should read this section together with our “Executive Summary and Business Outlook,” where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

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

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earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 3 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for the third quarter and first nine months of 2015 and 2014.

Table 3: Average Balances, Net Interest Income and Net Interest Margin⁽¹⁾

(Dollars in millions)	Three Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income/Expense ⁽²⁾⁽³⁾	Yield/Rate	Average Balance	Interest Income/Expense ⁽²⁾⁽³⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	\$80,678	\$ 2,884	14.30%	\$71,776	\$ 2,594	14.46%
International credit card	8,048	299	14.86	7,710	317	16.45
Total credit card	88,726	3,183	14.35	79,486	2,911	14.65
Consumer banking	71,374	1,113	6.24	71,237	1,100	6.18
Commercial banking	51,879	416	3.21	49,218	417	3.39
Other	97	41	169.07	125	35	112.00
Total loans, including loans held for sale	212,076	4,753	8.96	200,066	4,463	8.92
Investment securities	63,541	386	2.43	62,582	398	2.54
Cash equivalents and other interest-earning assets	7,465	25	1.34	6,242	26	1.67
Total interest-earning assets	\$283,082	\$ 5,164	7.30	\$268,890	\$ 4,887	7.27
Cash and due from banks	2,907			2,907		
Allowance for loan and lease losses	(4,671)			(3,995)		
Premises and equipment, net	3,698			3,778		
Other assets	28,806			27,333		
Total assets	\$313,822			\$298,913		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$185,800	\$ 271	0.58	\$179,928	\$ 271	0.60
Securitized debt obligations	14,881	39	1.05	10,110	32	1.27
Senior and subordinated notes	20,806	82	1.58	17,267	71	1.64
Other borrowings and liabilities	10,114	12	0.47	12,937	16	0.49
Total interest-bearing liabilities	\$231,601	\$ 404	0.70	\$220,242	\$ 390	0.71
Non-interest bearing deposits	25,174			25,271		
Other liabilities	8,591			8,573		
Total liabilities	265,366			254,086		
Stockholders' equity	48,456			44,827		
Total liabilities and stockholders' equity	\$313,822			\$298,913		
Net interest income/spread		\$ 4,760	6.60		\$ 4,497	6.56
Impact of non-interest bearing funding			0.13			0.13
Net interest margin			6.73%			6.69 %

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(Dollars in millions)	Nine Months Ended September 30,					
	2015			2014		
	Average Balance	Interest Income/Expense ⁽²⁾⁽³⁾	Yield/Rate	Average Balance	Interest Income/Expense ⁽²⁾⁽³⁾	Yield/Rate
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	\$77,235	\$ 8,191	14.14%	\$70,321	\$ 7,491	14.20%
International credit card	7,946	876	14.70	7,674	954	16.58
Total credit card	85,181	9,067	14.19	77,995	8,445	14.44
Consumer banking	71,528	3,354	6.25	71,042	3,297	6.19
Commercial banking	51,631	1,250	3.23	47,324	1,224	3.45
Other	104	153	196.15	131	83	84.48
Total loans, including loans held for sale	208,444	13,824	8.84	196,492	13,049	8.85
Investment securities	63,500	1,174	2.47	62,411	1,223	2.61
Cash equivalents and other interest-earning assets	7,444	77	1.38	6,162	80	1.73
Total interest-earning assets	\$279,388	\$ 15,075	7.19	\$265,065	\$ 14,352	7.22
Cash and due from banks	2,928			2,853		
Allowance for loan and lease losses	(4,485)			(4,132)		
Premises and equipment, net	3,704			3,808		
Other assets	28,611			27,912		
Total assets	\$310,146			\$295,506		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$184,258	\$ 814	0.59	\$181,587	\$ 819	0.60
Securitized debt obligations	13,233	108	1.09	10,419	109	1.39
Senior and subordinated notes	20,580	241	1.56	15,822	226	1.90
Other borrowings and liabilities	11,214	39	0.46	11,091	36	0.43
Total interest-bearing liabilities	\$229,285	\$ 1,202	0.70	\$218,919	\$ 1,190	0.72
Non-interest bearing deposits	25,076			24,196		
Other liabilities	8,409			8,563		
Total liabilities	262,770			251,678		
Stockholders' equity	47,376			43,828		
Total liabilities and stockholders' equity	\$310,146			\$295,506		
Net interest income/spread		\$ 13,873	6.49		\$ 13,162	6.50
Impact of non-interest bearing funding			0.13			0.12
Net interest margin			6.62%			6.62 %

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

(2) Past due fees included in interest income totaled approximately \$373 million and \$1.1 billion in the third quarter and first nine months of 2015, respectively, and \$368 million and \$1.1 billion in the third quarter and first nine months of 2014, respectively.

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

Net interest income increased by \$263 million to \$4.8 billion in the third quarter of 2015 compared to the third quarter of 2014, and increased by \$711 million to \$13.9 billion in the first nine months of 2015 compared to the first nine months of 2014. These increases were primarily driven by growth in our credit card, auto and commercial loan portfolios. Net interest margin increased by 4 basis points to 6.73% in the third quarter of 2015 compared to the third quarter of 2014 and remained consistent at 6.62% in the first nine months of 2015 compared to the first nine months of 2014. The relatively consistent net interest margin reflected the shift in the mix of our overall loan portfolio to credit card loans as a result of continued loan growth in our domestic card loan

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portfolio and the planned run-off of the acquired home loan portfolio, as well as lower wholesale funding costs; offset by the impact of declining yields in our auto, commercial, international credit card and investment securities portfolios. The lower yield in the international credit card loan portfolio also reflected the impact from the build in the U.K. PPI Reserve in the second and third quarters of 2015.

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

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

(Dollars in millions)	Three Months Ended September 30, 2015 vs. 2014			Nine Months Ended September 30, 2015 vs. 2014		
	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	\$272	\$332	\$(60)	\$622	\$765	\$(143)
Consumer banking	13	2	11	57	23	34
Commercial banking	(1)	21	(22)	26	104	(78)
Other	6	(8)	14	70	(17)	87
Total loans, including loans held for sale	290	347	(57)	775	875	(100)
Investment securities	(12)	6	(18)	(49)	20	(69)
Cash equivalents and other interest-earning assets	(1)	4	(5)	(3)	13	(16)
Total interest income	277	357	(80)	723	908	(185)
Interest expense:						
Deposits	—	9	(9)	(5)	12	(17)
Securitized debt obligations	7	12	(5)	(1)	23	(24)
Senior and subordinated notes	11	14	(3)	15	56	(41)
Other borrowings and liabilities	(4)	(3)	(1)	3	—	3
Total interest expense	14	32	(18)	12	91	(79)
Net interest income	\$263	\$325	\$(62)	\$711	\$817	\$(106)

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 ⁽¹⁾ results in a positive value. When the portion of interest income or interest expense attributable to both volume and rate results in a negative value, the total amount is allocated to volume or rate, depending on which amount is positive.

Non-Interest Income

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

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Table 5 displays the components of non-interest income for the third quarter and first nine months of 2015 and 2014.
Table 5: Non-Interest Income

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Service charges and other customer-related fees	\$423	\$471	\$1,289	\$1,405
Interchange fees, net	555	523	1,618	1,498
Net other-than-temporary impairment recognized in earnings	(5) (9) (27) (15
Other non-interest income:				
Benefit for mortgage representation and warranty losses ⁽¹⁾	7	—	15	15
Net gains from the sale of investment securities	3	6	4	18
Net fair value gains on free-standing derivatives	25	11	47	37
Other	132	140	400	357
Total other non-interest income	167	157	466	427
Total non-interest income	\$1,140	\$1,142	\$3,346	\$3,315

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

Non-interest income remained relatively consistent at \$1.1 billion and \$3.3 billion in the third quarter and first nine months of 2015, respectively, as compared to the same periods in 2014. The main drivers for the movements include an increase in net interchange fees due to higher purchase volume in our Credit Card business offset by a decrease in customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business and a build in the U.K. PPI Reserve in our International Card business.

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of \$1.1 billion and \$3.2 billion in the third quarter and first nine months of 2015, respectively, compared to \$993 million and \$2.4 billion in the third quarter and first nine months of 2014, respectively. The provision for credit losses as a percentage of net interest income was 22.9% and 22.7% in the third quarter and first nine months of 2015, respectively, compared to 22.1% and 18.5% in the third quarter and first nine months of 2014, respectively.

Our provision for credit losses increased by \$99 million and \$724 million in the third quarter and first nine months of 2015 compared to the third quarter and first nine months of 2014, respectively. The increase in the third quarter was primarily driven by (i) higher net charge-offs due to continued loan growth in our domestic credit card portfolio; and (ii) higher net charge-offs and a larger build in both the allowance and reserve for unfunded lending commitments resulting from adverse market conditions impacting our oil and gas portfolios and the taxi-lending component of our transportation loan portfolio in our Commercial Banking business. The increase in the first nine months of 2015 was primarily attributable to an allowance build in our credit card loan portfolio in 2015 due to continued loan growth coupled with our expectations for rising charge-off rates, as compared to an allowance release in the first nine months of 2014 due to improved credit outlook and delinquency inventories; as well as the changes in our Commercial Banking business as discussed above.

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

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Non-Interest Expense

Non-interest expense consists of ongoing operating costs, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing expenses and other 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 2015 and 2014.

Table 6: Non-Interest Expense

(Dollars in millions)	Three Months Ended		Nine Months Ended	
	September 30,		September 30,	
	2015	2014	2015	2014
Salaries and associate benefits	\$1,189	\$1,128	\$3,760	\$3,414
Occupancy and equipment	444	419	1,318	1,271
Marketing	418	392	1,180	1,052
Professional services	313	304	943	887
Communications and data processing	226	196	636	595
Amortization of intangibles	106	130	327	409
Other non-interest expense:				
Collections	79	90	249	287
Fraud losses	76	67	217	197
Bankcard, regulatory and other fee assessments	113	118	330	345
Other	196	141	556	439
Other non-interest expense	464	416	1,352	1,268
Total non-interest expense	\$3,160	\$2,985	\$9,516	\$8,896

Non-interest expense increased by \$175 million to \$3.2 billion in the third quarter of 2015 as compared to the third quarter of 2014, and increased by \$620 million to \$9.5 billion in the first nine months of 2015 as compared to the first nine months of 2014. The increases were primarily due to (i) higher marketing expenses in our Credit Card business and operating expenses related to growth in our credit card, auto and commercial loan portfolios; (ii) a build in the U.K. PPI Reserve and increased restructuring charges for severance and related benefits pursuant to our ongoing benefit programs; and (iii) continued technology and infrastructure investments. These increases were partially offset by a decline in the amortization of intangibles.

(Loss) Income from Discontinued Operations, Net of Tax

(Loss) income from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was closed in 2007. Loss from discontinued operations, net of tax, was \$4 million and income from discontinued operations, net of tax, was \$26 million in the third quarter and first nine months of 2015, respectively, compared to losses of \$44 million and \$24 million in the third quarter and first nine months of 2014, respectively. We recorded a provision net of tax for mortgage representation and warranty reserve 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, compared to a provision net of tax of \$44 million (\$70 million before tax) and \$21 million (\$34 million before tax) in the third quarter and first nine months of 2014, respectively.

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

Income Taxes

We recorded income tax provisions of \$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, compared to the income tax provision of \$536 million (32.3% effective income tax rate) and \$1.7 billion (32.9% effective income tax rate) in the third quarter and first nine months of

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2014, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the third quarter and first nine months of 2015, from the third quarter and first nine months of 2014, was primarily due to higher discrete tax benefits and increased tax credits, partially offset by a reduced benefit of lower taxed foreign earnings in the third quarter of 2015. We recorded net discrete tax benefits of \$10 million and \$15 million in the third quarter and first nine months of 2015, respectively. In comparison, we recorded a net discrete tax expense of less than \$1 million and \$28 million in the third quarter and first nine months of 2014, respectively. Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 32.7% and 32.1% in the third quarter and first nine months of 2015, respectively, and 32.3% and 32.4% in the third quarter and first nine months of 2014, respectively.

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

BUSINESS SEGMENT FINANCIAL PERFORMANCE

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

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

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

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

Credit Card Business

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

Our Credit Card business generated net income from continuing operations of \$670 million and \$1.8 billion in the third quarter and first nine months of 2015, respectively, and \$624 million and \$2.0 billion in the third quarter and first nine months of 2014, 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,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest income	\$2,866	\$ 2,627	9%	\$8,165	\$7,613	7%
Non-interest income	858	846	1	2,519	2,470	2
Total net revenue ⁽¹⁾	3,724	3,473	7	10,684	10,083	6
Provision for credit losses	831	787	6	2,395	1,894	26
Non-interest expense	1,848	1,730	7	5,481	5,175	6
Income from continuing operations before income taxes	1,045	956	9	2,808	3,014	(7)
Income tax provision	375	332	13	1,007	1,054	(4)
Income from continuing operations, net of tax	\$670	\$ 624	7	\$1,801	\$1,960	(8)
Selected performance metrics:						
Average loans held for investment ⁽²⁾	\$88,450	\$ 79,494	11	\$84,999	\$78,005	9
Average yield on loans held for investment ⁽³⁾	14.39%	14.65%	(26)bps	14.22%	14.44%	(22)bps
Total net revenue margin ⁽⁴⁾	16.84	17.48	(64)	16.76	17.24	(48)
Net charge-offs	\$655	\$ 572	15%	\$2,077	\$2,037	2%
Net charge-off rate	2.96%	2.88%	8 bps	3.26%	3.48%	(22)bps
Card loan premium amortization and other intangible accretion ⁽⁵⁾	\$5	\$ 18	(72)%	\$23	\$86	(73)%
Purchased credit card relationship (“PCCR”) intangible amortization	78	90	(13)	242	282	(14)
Purchase volume ⁽⁶⁾	69,875	57,474	22	195,817	161,266	21
	September 30,		Change			
(Dollars in millions)	2015	2014				
Selected period-end data:						
Loans held for investment ⁽²⁾	\$90,135	\$ 85,876	5%			
30+ day performing delinquency rate	3.24%	3.24%	—			
30+ day delinquency rate	3.29	3.30	(1)bps			
Nonperforming loan rate	0.07	0.08	(1)			
Allowance for loan and lease losses	\$3,484	\$ 3,204	9%			
Allowance coverage ratio ⁽⁷⁾	3.86%	3.73%	13 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 \$195 million and \$510 million in the third quarter and first nine months of 2015, respectively, and by \$164 million and \$480 million in the third quarter and first nine months of 2014, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled \$242 million and \$216 million as of September 30, 2015 and December 31, 2014, respectively.

(2)

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

- Calculated by dividing annualized interest income for the period by average loans held for investment during the
- (3) period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.
 - (4) Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Interest income also includes interest income on loans held for sale. Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans
 - (5) accounted for based on contractual cash flows and the accretion of other intangibles associated with the 2012 U.S. card acquisition.
 - (6) Consists of credit card purchase transactions, net of returns for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.
 - (7) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

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

Net Interest Income: Net interest income increased by \$239 million to \$2.9 billion in the third quarter of 2015, and increased by \$552 million to \$8.2 billion in the first nine months of 2015. The increases in net interest income were primarily driven by loan growth in our Domestic Card business.

Non-Interest Income: Non-interest income increased by \$12 million to \$858 million in the third quarter of 2015, and increased by \$49 million to \$2.5 billion in the first nine months of 2015. The increases were primarily attributable to an increase in net interchange fees driven by higher purchase volume, partially offset by a decline in customer-related fees primarily due to the continued run-off of the payment protection products in our Domestic Card business and a build in our U.K. PPI Reserve in our International Card business, a portion of which is recognized as contra revenue.

Provision for Credit Losses: The provision for credit losses increased by \$44 million to \$831 million in the third quarter of 2015, primarily driven by higher net charge-offs due to recent loan growth in our Domestic Card business. The provision for credit losses increased by \$501 million to \$2.4 billion in the first nine months of 2015, primarily driven by a build in the allowance for loan and lease losses in 2015 due to continued loan growth, coupled with our expectations for rising charge-off rates, as compared to an allowance release in the first nine months of 2014 as a result of improved credit outlook and delinquency inventories, as well as higher net charge-offs in our Domestic Card business.

Non-Interest Expense: Non-interest expense increased by \$118 million to \$1.8 billion in the third quarter of 2015, and increased by \$306 million to \$5.5 billion in the first nine months of 2015. These increases were due to higher operating expenses and marketing expenses associated with loan growth, and a build in our U.K. PPI Reserve in the second and third quarters of 2015, partially offset by lower intangibles amortization expense.

Loans Held for Investment: Period-end loans held for investment increased by \$4.3 billion to \$90.1 billion as of September 30, 2015 from December 31, 2014, primarily due to growth in our Domestic Card business.

- Average loans held for investment increased by \$9.0 billion to \$88.5 billion in the third quarter of 2015 compared to the third quarter of 2014, and increased by \$7.0 billion to \$85.0 billion in the first nine months of 2015 compared to the first nine months of 2014, primarily due to loan growth in the Domestic Card business.

Net Charge-off and Delinquency Statistics: Our net charge-off rate increased by 8 basis points to 2.96% in the third quarter of 2015 compared to the third quarter of 2014, primarily driven by higher losses due to the seasoning of recent loan originations. The net charge-off rate decreased by 22 basis points to 3.26% in the first nine months of 2015 compared to the first nine months of 2014, primarily due to loan growth during 2015. The 30+ day delinquency rate decreased by 1 basis point to 3.29% as of September 30, 2015 from December 31, 2014.

Domestic Card Business

Domestic Card generated net income from continuing operations of \$639 million and \$1.7 billion in the third quarter and first nine months of 2015, respectively, compared to net income from continuing operations of \$550 million and \$1.8 billion in the third quarter and first nine months of 2014, respectively. Domestic Card accounted for 92% of total net revenues of our Credit Card business in both the third quarter and first nine months of 2015, compared to 90% in both the third quarter and first nine months of 2014. Income attributable to Domestic Card represented 95% of net income for our Credit Card business in both the third quarter and first nine months of 2015, compared to 88% and 89% in the third quarter and first nine months of 2014, respectively. The higher portion of total net revenue attributable to Domestic Card was primarily due to the impact of foreign exchange rates driven by the strengthening of the U.S. dollar, as well as the build in our U.K. PPI Reserve in our International 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,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest income	\$2,613	\$ 2,361	11%	\$7,429	\$6,809	9%
Non-interest income	814	763	7	2,353	2,233	5
Total net revenue ⁽¹⁾	3,427	3,124	10	9,782	9,042	8
Provision for credit losses	796	738	8	2,259	1,728	31
Non-interest expense	1,630	1,530	7	4,831	4,588	5
Income from continuing operations before income taxes	1,001	856	17	2,692	2,726	(1)
Income tax provision	362	306	18	974	974	—
Income from continuing operations, net of tax	\$639	\$ 550	16	\$1,718	\$1,752	(2)
Selected performance metrics:						
Average loans held for investment ⁽²⁾	\$80,402	\$ 71,784	12	\$77,053	\$70,331	10
Average yield on loans held for investment ⁽³⁾	14.35%	14.46%	(11) bps	14.17%	14.20%	(3) bps
Total net revenue margin ⁽⁴⁾	17.05	17.41	(36)	16.93	17.14	(21)
Net charge-offs	\$619	\$ 508	22%	\$1,933	\$1,818	6%
Net charge-off rate	3.08%	2.83%	25 bps	3.35%	3.45%	(10) bps
Card loan premium amortization and other intangible accretion ⁽⁵⁾	\$5	\$ 18	(72)%	\$23	\$86	(73)%
PCCR intangible amortization	78	90	(13)	242	282	(14)
Purchase volume ⁽⁶⁾	63,777	53,690	19	178,000	150,482	18

(Dollars in millions)	September 30,		Change
	2015	December 31, 2014	
Selected period-end data:			
Loans held for investment ⁽²⁾	\$82,178	\$ 77,704	6%
30+ day delinquency rate	3.28%	3.27%	1 bps
Allowance for loan and lease losses	\$3,196	\$ 2,878	11%
Allowance coverage ratio ⁽⁷⁾	3.89%	3.70%	19 bps

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

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

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

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

- Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans
- (5) accounted for based on contractual cash flows and the accretion of other intangibles associated with the 2012 U.S. card acquisition.
 - (6) Consists of domestic card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.
 - (7) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results discussed above are similar to the key factors affecting our total Credit Card business. The primary driver of the changes in net income for our Domestic Card business was continued loan growth which drove higher revenue, higher provision for credit losses and higher operating and marketing expenses.

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International Card Business

International Card generated net income from continuing operations of \$31 million and \$83 million in the third quarter and first nine months of 2015, respectively, compared to net income from continuing operations of \$74 million and \$208 million in the third quarter and first nine months of 2014, respectively. The decreases in the third quarter and first nine months of 2015 were primarily due to a build in our U.K. PPI Reserve in the second and third quarters of 2015, which resulted in a reduction to net revenue and an increase in non-interest expense, and the impact of foreign exchange rates driven by the strengthening of the U.S. dollar in the first nine months of 2015, which were partially offset by lower provision for credit losses primarily driven by a decrease in net charge-offs due to recent credit improvement and higher recoveries from debt sales.

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 September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest income	\$253	\$ 266	(5)%	\$736	\$804	(8)%
Non-interest income	44	83	(47)	166	237	(30)
Total net revenue	297	349	(15)	902	1,041	(13)
Provision for credit losses	35	49	(29)	136	166	(18)
Non-interest expense	218	200	9	650	587	11
Income from continuing operations before income taxes	44	100	(56)	116	288	(60)
Income tax provision	13	26	(50)	33	80	(59)
Income from continuing operations, net of tax	\$31	\$ 74	(58)	\$83	\$208	(60)
Selected performance metrics:						
Average loans held for investment ⁽¹⁾	\$8,048	\$ 7,710	4	\$7,946	\$7,674	4
Average yield on loans held for investment ⁽²⁾	14.88%	16.42%	(154)bps	14.70%	16.60%	(190)bps
Total net revenue margin ⁽³⁾	14.77	18.13	(336)	15.14	18.09	(295)
Net charge-offs	\$36	\$ 64	(44)%	\$144	\$219	(34)%
Net charge-off rate	1.80%	3.32%	(152)bps	2.41%	3.81%	(140)bps
Purchase volume ⁽⁴⁾	\$6,098	\$ 3,784	61%	\$17,817	\$10,784	65%
(Dollars in millions)	September 30,		Change	December 31,		Change
	2015	2014		2015	2014	
Selected period-end data:						
Loans held for investment ⁽¹⁾	\$7,957	\$ 8,172	(3)%			
30+ day performing delinquency rate	2.81%	2.94%	(13)bps			
30+ day delinquency rate	3.39	3.60	(21)			
Nonperforming loan rate	0.77	0.86	(9)			
Allowance for loan and lease losses	\$288	\$ 326	(12)%			
Allowance coverage ratio ⁽⁵⁾	3.62%	3.99%	(37)bps			

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

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

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

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

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Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of \$273 million and \$830 million in the third quarter and first nine months of 2015, respectively, and \$289 million and \$953 million in the third quarter and first nine months of 2014, respectively.

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

Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended September 30,			Nine Months Ended September 30,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest income	\$1,443	\$1,425	1%	\$4,321	\$4,289	1%
Non-interest income	174	179	(3)	528	499	6
Total net revenue	1,617	1,604	1	4,849	4,788	1
Provision for credit losses ⁽¹⁾	188	198	(5)	579	481	20
Non-interest expense	1,001	956	5	2,969	2,824	5
Income from continuing operations before income taxes	428	450	(5)	1,301	1,483	(12)
Income tax provision	155	161	(4)	471	530	(11)
Income from continuing operations, net of tax	\$273	\$289	(6)	\$830	\$953	(13)
Selected performance metrics:						
Average loans held for investment: ⁽²⁾						
Auto	\$40,560	\$35,584	14	\$39,505	\$33,993	16
Home loan	26,934	31,859	(15)	28,217	33,258	(15)
Retail banking	3,603	3,605	—	3,578	3,616	(1)
Total consumer banking	\$71,097	\$71,048	—	\$71,300	\$70,867	1
Average yield on loans held for investment ⁽³⁾	6.25%	6.18	% 7 bps	6.26%	6.19%	7 bps
Average deposits	\$170,816	\$168,407	1%	\$170,500	\$168,925	1%
Average deposit interest rate	0.56%	0.58	% (2)bps	0.57%	0.58%	(1)bps
Core deposit intangible amortization	\$19	\$26	(27)%	\$62	\$84	(26)%
Net charge-offs	203	190	7	498	460	8
Net charge-off rate	1.14%	1.07%	7 bps	0.93%	0.87%	6 bps
Net charge-off rate (excluding Acquired Loans) ⁽⁴⁾	1.58	1.65	(7)	1.33	1.37	(4)
Auto loan originations	\$5,590	\$5,410	3%	\$16,208	\$15,513	4%

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(Dollars in millions)	September 30, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment: ⁽²⁾			
Auto	\$ 41,052	\$ 37,824	9%
Home loan	26,340	30,035	(12)
Retail banking	3,598	3,580	1
Total consumer banking	\$ 70,990	\$ 71,439	(1)
30+ day performing delinquency rate	3.62%	3.60%	2 bps
30+ day performing delinquency rate (excluding Acquired Loans) ⁽⁴⁾	5.01	5.34	(33)
30+ day delinquency rate	4.22	4.23	(1)
30+ day delinquency rate (excluding Acquired Loans) ⁽⁴⁾	5.83	6.28	(45)
Nonperforming loans rate	0.76	0.77	(1)
Nonperforming loans rate (excluding Acquired Loans) ⁽⁴⁾	1.05	1.14	(9)
Nonperforming asset rate ⁽⁵⁾	1.05	1.06	(1)
Nonperforming asset rate (excluding Acquired Loans) ⁽⁴⁾⁽⁵⁾	1.44	1.57	(13)
Allowance for loan and lease losses ⁽¹⁾	\$ 860	\$ 779	10%
Allowance coverage ratio ⁽⁶⁾	1.21%	1.09%	12 bps
Deposits	\$ 170,866	\$ 168,078	2%
Loans serviced for others	7,368	6,701	10

(1) The provision for unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. We recorded a reserve for unfunded lending commitments of \$8 million and \$7 million as of September 30, 2015 and December 31, 2014, respectively.

(2) The period-end consumer banking loans held for investments includes Acquired Loans with carrying values of \$19.6 billion and \$23.3 billion as of September 30, 2015 and December 31, 2014, respectively. The average balance of consumer banking loans held for investment includes Acquired Loans of \$20.0 billion and \$24.9 billion in the third quarter of 2015 and 2014, respectively, and \$21.3 billion and \$26.2 billion in the first nine months of 2015 and 2014, respectively.

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

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

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

Key factors affecting the results of our Consumer Banking business for the third quarter and first nine months of 2015, compared to the third quarter and first nine months of 2014, and changes in financial condition and credit performance

between September 30, 2015 and December 31, 2014 include the following:

Net Interest Income: Net interest income increased by \$18 million to \$1.4 billion in the third quarter of 2015 and increased by \$32 million to \$4.3 billion in the first nine months of 2015 as compared to the third quarter and first nine months of 2014, as the higher net interest income generated by the growth in our auto loan portfolio was partially offset by lower net interest income from our home loan portfolio attributable to the planned run-off of the acquired portfolio and margin compression in auto loans.

Consumer Banking loan yields increased by 7 basis points to 6.3% in both the third quarter and first nine months of 2015, compared to the third quarter and first nine months of 2014. The increases were driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and the planned run-off of the acquired home loan portfolio. The increase in our auto loan portfolio in relation to our total consumer banking loan portfolio drove an increase in the total Consumer Banking yield, even as the average yield on auto loans decreased by 50 basis points to 8.0% and decreased by 64 basis points to 8.1% in the third quarter and first nine months of 2015, respectively. These decreases were primarily attributable to two factors: (i) a shift to a higher proportion of prime auto loans; and (ii) continued competition across the auto business. The average yield on the home loan portfolio increased by 7 basis points to 3.8% and increased

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by 13 basis points to 3.9% in the third quarter and first nine months of 2015, respectively, as a result of higher payments on our acquired home loan portfolio.

Non-Interest Income: Non-interest income decreased by \$5 million to \$174 million in the third quarter of 2015.

Non-interest income increased by \$29 million to \$528 million in the first nine months of 2015 primarily due to the gain on sales recognized on loans originated and sold within our home loan portfolio.

Provision for Credit Losses: The provision for credit losses decreased by \$10 million to \$188 million in the third quarter of 2015. The provision for credit losses increased by \$98 million to \$579 million in the first nine months of 2015 driven by an allowance build in our Consumer Banking business due to continued loan growth and higher losses on recent auto loan originations, coupled with higher net charge-offs in our auto loan portfolio.

Non-Interest Expense: Non-interest expense increased by \$45 million to \$1.0 billion in the third quarter of 2015, and increased by \$145 million to \$3.0 billion in the first nine months of 2015, largely due to continued technology and infrastructure investments in our retail banking business and increased operating expenses due to growth in our auto loan portfolio.

Loans Held for Investment: Period-end loans held for investment decreased by \$449 million to \$71.0 billion as of September 30, 2015 from December 31, 2014, primarily due to the planned run-off of our acquired home loan portfolio, partially offset by growth in our auto loan portfolio. Average loans held for investment increased by \$49 million to \$71.1 billion in the third quarter of 2015 compared to the third quarter of 2014, and increased by \$433 million to \$71.3 billion in the first nine months of 2015 compared to the first nine months of 2014, due to growth in our auto loan portfolio outpacing the planned run-off of our acquired home loan portfolio.

Deposits: Period-end deposits increased by \$2.8 billion to \$170.9 billion as of September 30, 2015 from December 31, 2014, primarily driven by our continued focus on deposit relationships with existing customers and attracting new customers.

Net Charge-off and Delinquency Statistics: The net charge-off rate increased by 7 basis points to 1.14% in the third quarter of 2015 compared to the third quarter of 2014, and increased by 6 basis points to 0.93% in the first nine months of 2015 compared to the first nine months of 2014. The increase in the net charge-off rates reflected the planned run-off of our acquired home loan portfolio, which generally does not have charge-offs since these loans were recorded at fair value at acquisition, and a greater portion of auto loans in our portfolio, which have a higher charge-off rate than other products within the total consumer banking loan portfolio. The 30+ day delinquency rate decreased by 1 basis point to 4.22% as of September 30, 2015 from December 31, 2014.

Commercial Banking Business

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

Our Commercial Banking business generated net income from continuing operations of \$137 million and \$464 million in the third quarter and first nine months of 2015, respectively, and \$182 million and \$490 million in the third quarter and first nine months of 2014, 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,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest income	\$454	\$439	3%	\$1,381	\$1,296	7%
Non-interest income	108	122	(11)	345	318	8
Total net revenue ⁽¹⁾	562	561	—	1,726	1,614	7
Provision for credit losses ⁽²⁾	75	9	733	184	61	202
Non-interest expense	272	268	1	814	790	3
Income from continuing operations before income taxes	215	284	(24)	728	763	(5)
Income tax provision	78	102	(24)	264	273	(3)
Income from continuing operations, net of tax	\$137	\$182	(25)	\$464	\$490	(5)
Selected performance metrics:						
Average loans held for investment: ⁽³⁾						
Commercial and multifamily real estate	\$23,305	\$22,409	4	\$23,092	\$21,623	7
Commercial and industrial	27,620	25,512	8	27,411	24,562	12
Total commercial lending	50,925	47,921	6	50,503	46,185	9
Small-ticket commercial real estate	667	845	(21)	712	891	(20)
Total commercial banking	\$51,592	\$48,766	6	\$51,215	\$47,076	9
Average yield on loans held for investment ⁽¹⁾	3.21%	3.39	% (18) bps	3.23%	3.45%	(22) bps
Average deposits	\$32,806	\$31,772	3%	\$32,809	\$31,546	4%
Average deposit interest rate	0.25%	0.24%	1 bps	0.25%	0.24%	1 bps
Core deposit intangible amortization	\$3	\$5	(40)%	\$11	\$16	(31)%
Net charge-offs	33	(6)	**	43	1	**
Net charge-off (recovery) rate	0.26%	(0.05)%	31 bps	0.11%	0.00%	11 bps
(Dollars in millions)	September 30,		December 31,			
	2015	2014	Change			
Selected period-end data:						
Loans held for investment: ⁽³⁾						
Commercial and multifamily real estate	\$23,585	\$23,137	2%			
Commercial and industrial	27,873	26,972	3			
Total commercial lending	51,458	50,109	3			
Small-ticket commercial real estate	654	781	(16)			
Total commercial banking	\$52,112	\$50,890	2			
Nonperforming loans rate	0.87%	0.34%	53 bps			
Nonperforming asset rate ⁽⁴⁾	0.87	0.36	51			
Allowance for loan and lease losses ⁽²⁾	\$499	\$395	26%			
Allowance coverage ratio ⁽⁵⁾	0.96%	0.78%	18 bps			
Deposits	\$32,751	\$31,954	2%			
Loans serviced for others ⁽⁶⁾	16,927	14,131	20			

**Change is not meaningful.

(1) The average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Annualized interest income excludes various allocations

including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment. Some of our tax-related commercial investments generate tax-exempt income or tax credits. Accordingly, we make certain reclassifications within our Commercial Banking business results to present revenues and yields on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory tax rate of 35%.

(2) The provision for unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. We recorded a reserve for unfunded lending commitments of \$142 million and \$106 million as of September 30, 2015 and December 31, 2014, respectively.

(3) The period-end commercial banking loans held for investments includes Acquired Loans with carrying value of \$131 million and \$191 million as of September 30, 2015 and December 31, 2014, respectively. The average balance of commercial banking loans held for investment includes Acquired Loans of \$133 million and \$213 million in the third quarter of 2015 and 2014 respectively, and \$153 million and \$222 million in the first nine months of 2015 and 2014, respectively.

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- Nonperforming assets consist of nonperforming loans, real estate owned (“REO”) and other foreclosed assets. The
- (4) nonperforming asset rate is calculated based on nonperforming assets as of the end of the period divided by the sum of period-end loans held for investment, foreclosed properties and other foreclosed assets, and is adjusted to exclude the impact of acquired REOs.
 - (5) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.
 - (6) Represents our portfolio of loans serviced for third parties related to our multifamily finance business.

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

Net Interest Income: Net interest income increased by \$15 million to \$454 million in the third quarter of 2015, and increased by \$85 million to \$1.4 billion in the first nine months of 2015. The increases were due to growth in commercial and industrial and commercial and multifamily real estate average loans, partially offset by lower loan yields driven by market and competitive pressures.

Non-Interest Income: Non-interest income decreased by \$14 million to \$108 million in the third quarter of 2015 due to pricing compression and differences in the timing of loan originations in our multifamily finance business.

Non-interest income increased by \$27 million to \$345 million in the first nine months of 2015 primarily driven by increased revenue from fee-based services and products related to our multifamily finance business.

Provision for Credit Losses: The provision for credit losses increased by \$66 million to \$75 million in the third quarter of 2015, and increased by \$123 million to \$184 million in the first nine months of 2015. The increases were primarily driven by higher charge-offs and a larger build in both the allowance and the reserve for unfunded lending commitments resulting from adverse market conditions impacting our oil and gas portfolios and the taxi-lending component of our transportation loan portfolio. See “MD&A—Table 18—Commercial Loans by Industry” for additional information about the composition of our commercial banking loan portfolio, and “Note 4—Loans” for additional information about credit metrics for our commercial banking loan portfolio.

Non-Interest Expense: Non-interest expense increased by \$4 million to \$272 million in the third quarter of 2015, and increased by \$24 million to \$814 million in the first nine months of 2015, driven by higher operating expenses associated with continued growth in our Commercial Banking business.

Loans Held for Investment: Period-end loans held for investment increased by \$1.2 billion to \$52.1 billion as of September 30, 2015 from December 31, 2014 driven by loan growth in our commercial and industrial and commercial and multifamily real estate loan portfolios. Average loans held for investment increased by \$2.8 billion to \$51.6 billion in the third quarter of 2015 compared to the third quarter of 2014, and increased by \$4.1 billion to \$51.2 billion in the first nine months of 2015 compared to the first nine months of 2014, driven by loan growth in our commercial and industrial and commercial and multifamily real estate loan portfolios.

Deposits: Period-end deposits increased by \$797 million to \$32.8 billion as of September 30, 2015 from December 31, 2014, driven by our strategy to strengthen existing relationships with and increase liquidity from our commercial customers.

Net Charge-off and Nonperforming Statistics: The net charge-off rate increased by 31 basis points to 0.26% in the third quarter of 2015 compared to the third quarter of 2014, and increased by 11 basis points to 0.11% in the first nine months of 2015 compared to the first nine months of 2014. The nonperforming loans rate increased by 53 basis points to 0.87% as of September 30, 2015 from December 31, 2014. The increases in these rates reflect losses and credit risk rating downgrades in our oil and gas portfolios and the taxi-lending component of our transportation loan portfolio.

Other Category

Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, gains and losses on our investment securities portfolio and certain capital management activities. Other also includes foreign exchange-rate fluctuations on foreign currency-denominated balances; certain gains and losses on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business

segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges; a portion of the net provision for representation and warranty losses related to continuing operations; and offsets related to certain line-item reclassifications.

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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,		
	2015	2014	Change	2015	2014	Change
Selected income statement data:						
Net interest (expense) income	\$(3)	\$6	**	\$6	\$(36)	**
Non-interest income	—	(5)	**	(46)	28	**
Total net (loss) revenue ⁽¹⁾	(3)	1	**	(40)	(8)	**
Benefit for credit losses	(2)	(1)	100 %	(2)	(4)	(50)%
Non-interest expense	39	31	26	252	107	136
Loss from continuing operations before income taxes	(40)	(29)	38	(290)	(111)	161
Income tax benefit	(78)	(59)	32	(299)	(161)	86
Income from continuing operations, net of tax	\$38	\$30	27	\$9	\$50	(82)

**Change is not meaningful.

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

Net income from continuing operations recorded in the Other category was \$38 million and \$9 million in the third quarter and first nine months of 2015, respectively, compared to a net income from continuing operations of \$30 million and \$50 million in the third quarter and first nine months of 2014, respectively. The reduction in net income in the first nine months of 2015 was primarily due to the restructuring charges for severance and related benefits pursuant to our ongoing benefit programs during the second quarter of 2015 and decreased net revenue from our Corporate Treasury function, partially offset by higher tax benefits.

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by \$5.5 billion to \$313.7 billion as of September 30, 2015 from December 31, 2014 primarily attributable to (i) an increase of \$5.0 billion in loans held for investment due to growth in our credit card, auto and commercial portfolios, partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase of \$1.1 billion in investment securities due to purchases outpacing sales, maturities and paydowns. Total liabilities increased by \$2.9 billion to \$266.0 billion as of September 30, 2015, primarily driven by higher deposit and outstanding debt due to new issuances outpacing maturities, partially offset by lower Federal Home Loan Banks (“FHLB”) advances resulting from lower liquidity-related short-term funding needs due to expected seasonality and increased long-term debt issuances. Stockholders’ equity increased by \$2.6 billion to \$47.7 billion as of September 30, 2015. The increase in stockholders’ equity was primarily attributable to our net income of \$3.1 billion in the first nine months of 2015 and \$1.5 billion of proceeds from the issuance of preferred stock, partially offset by \$1.8 billion of share repurchases under our 2014 and 2015 Stock Repurchase Programs and dividend payments.

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

Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency (“Agency”) and non-agency

residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other securities. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 90% and 86% of our total investment securities portfolio as of September 30, 2015 and December 31, 2014, respectively. During the first nine months of 2015, the fair value of our investment portfolio increased by \$1.2 billion to \$64.3 billion as of September 30, 2015 from December 31, 2014 due to purchases outpacing maturities and paydowns.

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We had gross unrealized gains of \$808 million and gross unrealized losses of \$130 million on available-for sale investment securities as of September 30, 2015, compared to gross unrealized gains of \$886 million and gross unrealized losses of \$237 million as of December 31, 2014. The marginal increase in net unrealized gains in the first nine months of 2015 was primarily driven by a decrease in interest rates. Of the \$130 million in gross unrealized losses as of September 30, 2015, \$94 million was related to securities that had been in a loss position for more than 12 months. We provide information on other-than-temporary impairment (“OTTI”) recognized in earnings on our investment securities above in “Consolidated Results of Operations—Non-Interest Income.”

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

Table 11: Investment Securities

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale				
U.S. Treasury securities	\$4,412	\$4,445	\$4,114	\$4,118
Corporate debt securities guaranteed by U.S. government agencies	356	355	819	800
RMBS:				
Agency ⁽¹⁾	24,409	24,611	21,804	21,995
Non-agency	2,761	3,154	2,938	3,386
Total RMBS	27,170	27,765	24,742	25,381
CMBS:				
Agency ⁽¹⁾	3,431	3,446	3,751	3,723
Non-agency	1,744	1,774	1,780	1,796
Total CMBS	5,175	5,220	5,531	5,519
Other ABS ⁽²⁾	1,478	1,483	2,618	2,662
Other securities ⁽³⁾	162	163	1,035	1,028
Total investment securities available for sale	\$38,753	\$39,431	\$38,859	\$39,508

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity				
U.S. Treasury securities	\$198	\$200	\$0	\$0
Agency RMBS	20,614	21,674	20,163	21,210
Agency CMBS	2,899	3,039	2,337	2,424
Total investment securities held to maturity	\$23,711	\$24,913	\$22,500	\$23,634

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

(2) ABS collateralized by credit card loans constituted approximately 65% and 56% of the other ABS portfolio as of September 30, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 10% and 16% of the other ABS portfolio as of September 30, 2015 and December 31, 2014, respectively.

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

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. Approximately 95% and 93% of our total investment securities portfolio was rated AA+ or its equivalent, or better, as of September 30,

2015 and December 31, 2014, respectively, while approximately 5% and 6% was below investment grade as of September 30, 2015 and December 31, 2014,

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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, 2015 and December 31, 2014.

Table 12: Non-Agency Investment Securities Credit Ratings

(Dollars in millions)	September 30, 2015				December 31, 2014			
	Fair Value	AAA	Other Investment Grade	Below Investment Grade ⁽¹⁾	Fair Value	AAA	Other Investment Grade	Below Investment Grade ⁽¹⁾
Non-agency RMBS	\$3,154	—	3%	97%	\$3,386	—	3%	97%
Non-agency CMBS	1,774	100%	—	—	1,796	100%	—	—
Other ABS	1,483	99	1	—	2,662	90	5	5
Other securities	163	18	26	56	1,028	2	88	10

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

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

Loans Held for Investment

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

Table 13: Loans Held for Investment

(Dollars in millions)	September 30, 2015			December 31, 2014		
	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	\$90,135	\$ 3,484	\$86,651	\$85,876	\$ 3,204	\$82,672
Consumer Banking	70,990	860	70,130	71,439	779	70,660
Commercial Banking	52,112	499	51,613	50,890	395	50,495
Other	92	4	88	111	5	106
Total	\$213,329	\$ 4,847	\$208,482	\$208,316	\$ 4,383	\$203,933

Period-end loans held for investment increased by \$5.0 billion to \$213.3 billion as of September 30, 2015 from December 31, 2014, primarily driven by continued loan growth in our credit card, auto and commercial loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio.

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

Loans Held for Sale

Loans held for sale, which are carried at lower of cost or fair value, decreased by \$60 million to \$566 million as of September 30, 2015 from December 31, 2014. The decrease was primarily due to (i) the sale of certain credit card loan portfolios and (ii) a decrease in loan originations within our multifamily finance loan portfolio.

Deposits

Our deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total deposits increased by \$7.4 billion to \$212.9 billion as of September 30, 2015 from December 31, 2014. The increase in deposits was primarily driven by the issuance of brokered deposits and growth in our Consumer Banking and Commercial Banking businesses as a result of our continued focus on deposit relationships with existing customers and our ongoing marketing strategy to attract new business and increase liquidity from our commercial customers. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in "Liquidity Risk Profile."

Table of Contents**Securitized Debt Obligations**

Securitized debt obligations increased by \$4.0 billion to \$15.7 billion as of September 30, 2015 from December 31, 2014 primarily driven by debt issuances of \$4.2 billion, offset by debt maturities of \$175 million during the first nine months of 2015. We provide additional information on our borrowings below in “Liquidity Risk Profile.”

Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes, and FHLB advances, totaled \$27.1 billion as of September 30, 2015, of which \$1.0 billion represented short-term borrowings and \$26.1 billion represented long-term debt. Other debt totaled \$36.8 billion as of December 31, 2014, of which \$17.1 billion represented short-term borrowings and \$19.7 billion represented long-term debt. During the first nine months of 2015, we extended the maturity of our FHLB advances which resulted in a decrease in our short-term debt and a corresponding increase in our long-term debt.

The decrease in other debt of \$9.7 billion in the first nine months of 2015 was primarily attributable to a net decrease of \$13.0 billion in FHLB advances, partially offset by net increases of \$3.1 billion in unsecured senior notes and \$141 million in federal funds purchased and securities loaned or sold under agreements to repurchase. We provide additional information on our borrowings below in “Liquidity Risk Profile” and in “Note 8—Deposits and Borrowings.”

Mortgage Representation and Warranty Reserve

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

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities totaled \$632 million as of September 30, 2015, compared to \$731 million as of December 31, 2014.

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

Table 14: Changes in Representation and Warranty Reserve

(Dollars in millions)	Three Months Ended September 30,		Nine Months Ended September 30,	
	2015	2014	2015	2014
Representation and warranty reserve, beginning of period	\$636	\$1,012	\$731	\$1,172
(Benefit) provision for mortgage representation and warranty losses:				
Recorded in continuing operations	(7)	—	(15)	(15)
Recorded in discontinued operations	3	70	(43)	34
Total (benefit) provision for mortgage representation and warranty losses	(4)	70	(58)	19
Net realized losses	—	(2)	(41)	(111)
Representation and warranty reserve, end of period	\$632	\$1,080	\$632	\$1,080

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, 2015, is approximately \$1.6

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(COF)

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

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

OFF-BALANCE SHEET ARRANGEMENTS AND VARIABLE INTEREST ENTITIES

In the ordinary course of business, we are involved in various types of arrangements with limited liability companies, partnerships or trusts that often involve special purpose entities and variable interest entities (“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 mortgage loan trusts and community reinvestment and development entities. We provide a discussion of our activities related to these VIEs in “Note 6—Variable Interest Entities and Securitizations.”

CAPITAL MANAGEMENT

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

Capital Standards and Prompt Corrective Action

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

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

At the end of 2012, the Company met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, the Company has undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. Certain provisions of the Final Basel III Capital Rules began to take effect on January 1, 2014 for Advanced Approaches banking organizations, including the Company. The Company entered parallel run under Advanced Approaches on January 1, 2015, during which it will calculate capital ratios under both the Basel III Standardized Approaches and the Basel III Advanced Approaches, though it will continue to use the Basel III Standardized Approach for purposes of meeting regulatory capital requirements. By rule, the parallel run must last at least four consecutive quarters. Therefore, the first quarter of 2016 is the earliest possible date on which the Company would use

the Basel III Advanced Approaches framework in calculating its regulatory capital and risk-weighted assets for purposes of risk-based capital requirements. Consistent with the experience of other U.S. banks, it is possible that our parallel run will last

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longer than the four quarter minimum. Under the Dodd-Frank Act and the Final Basel III Capital Rules, organizations subject to Basel III Advanced Approaches may not hold less capital than would be required under the Basel III Standardized Approach. Therefore, even after we exit parallel run, we will continue to calculate regulatory capital and risk-weighted assets under the Basel III Standardized Approach.

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

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

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

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

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

Table of ContentsTable 15: Capital Ratios⁽¹⁾⁽²⁾

	September 30, 2015			December 31, 2014		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital ⁽³⁾	12.1%	4.5%	N/A	12.5%	4.0%	N/A
Tier 1 risk-based capital ⁽⁴⁾	13.4	6.0	6.0%	13.2	5.5	6.0%
Total risk-based capital ⁽⁵⁾	15.1	8.0	10.0	15.1	8.0	10.0
Tier 1 leverage ⁽⁶⁾	11.1	4.0	N/A	10.8	4.0	N/A
Supplementary leverage ratio ⁽⁷⁾	9.6	N/A	N/A	N/A	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital ⁽³⁾	12.5%	4.5%	6.5%	11.3%	4.0%	N/A
Tier 1 risk-based capital ⁽⁴⁾	12.5	6.0	8.0	11.3	5.5	6.0%
Total risk-based capital ⁽⁵⁾	15.5	8.0	10.0	14.6	8.0	10.0
Tier 1 leverage ⁽⁶⁾	10.8	4.0	5.0	9.6	4.0	5.0
Supplementary leverage ratio ⁽⁷⁾	8.8	N/A	N/A	N/A	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital ⁽³⁾	12.9%	4.5	% 6.5%	12.5%	4.0%	N/A
Tier 1 risk-based capital ⁽⁴⁾	12.9	6.0	8.0	12.5	5.5	6.0%
Total risk-based capital ⁽⁵⁾	14.0	8.0	10.0	13.6	8.0	10.0
Tier 1 leverage ⁽⁶⁾	9.1	4.0	5.0	8.9	4.0	5.0
Supplementary leverage ratio ⁽⁷⁾	8.2	N/A	N/A	N/A	N/A	N/A

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

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

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

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

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

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

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

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

The calculation of our Basel III Standardized Approach common equity Tier 1 capital under the Final Basel III Capital Rules includes adjustments and deductions which are subject to transition provisions, such as the inclusion of the

unrealized gains and losses on available for sale investment securities included in accumulated other comprehensive income (“AOCI”) and adjustments related to intangible assets other than goodwill. The inclusion of AOCI and the adjustments related to intangible assets are phased-in at 20% for 2014, 40% for 2015, 60% for 2016, 80% for 2017 and 100% for 2018.

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

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to future regulations and interpretations. As we continue to engage with our regulators during our parallel run, we anticipate that there could be further changes to the calculation.

Table 16: Estimated Common Equity Tier 1 Capital Ratio under Fully Phased-In Basel III Standardized Approach⁽¹⁾

(Dollars in millions)	September 30, 2015
Common equity Tier 1 capital under Basel III Standardized	\$30,109
Adjustments related to AOCI ⁽²⁾	(218)
Adjustments related to intangibles ⁽²⁾	(562)
Other adjustments ⁽²⁾	—
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized	\$29,329
Risk-weighted assets under Basel III Standardized	\$249,081
Adjustments for fully phased-in Basel III Standardized ⁽³⁾	(114)
Estimated risk-weighted assets under fully phased-in Basel III Standardized	\$248,967
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized ⁽⁴⁾	11.8%

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

(2) Assumes adjustments are fully phased-in.

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

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

(4) 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 Rules, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater of the Basel III Standardized Approach and the Basel III Advanced Approaches. See “Part I—Item 1. Business—Supervision and Regulation” in our 2014 Form 10-K for additional information. Once we exit parallel run, based on clarification of the Final Basel III Capital Rules from our regulators, any difference between the Final Basel III Capital Rules definitions of expected credit losses and our eligible credit reserves will be deducted from our Basel III Standardized Approach numerator, subject to transition provisions. Inclusive of this impact, based on current rules and our business mix, we estimate that our Basel III Advanced Approaches ratios will be lower than our Standardized Approach ratios.

Capital Planning and Regulatory Stress Testing

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

Business—Supervision and Regulation” in our 2014 Form 10-K. On July 17, 2015, the Federal Reserve issued a proposal to modify its capital planning and stress testing regulations, which would take effect for the 2016 capital plan and stress testing cycles. The proposal removes the requirement for organizations to calculate a Tier 1 common ratio in

their stress tests and delays the incorporation of the supplementary leverage ratio for applicable banks like us until the 2017 cycle. In addition, the proposal indefinitely delays the use of Advanced Approaches risk-weighted assets in stress testing.

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

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common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016, in addition to share repurchases related to employee compensation.

Equity Offerings and Transactions

On August 24, 2015, the Company issued and sold 20,000,000 Depositary Shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series F, \$0.01 par value, with a liquidation preference of \$25 per Depositary Share (the “Series F Preferred Stock”). The net proceeds of the offering of Series F Preferred Stock were approximately \$484 million, after deducting underwriting commissions and offering expenses. Dividends will accrue on the Series F Preferred Stock at a rate of 6.20% per annum, payable quarterly in arrears. Under the terms of the Series F 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 F 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 F Preferred Stock for the immediately preceding dividend period.

Dividend Policy and Stock Purchases

On October 29, 2015, our Board of Directors declared a quarterly common stock dividend of \$0.40 per share, payable on November 19, 2015 to stockholders of record at the close of the business on November 9, 2015. Our Board of Directors also approved quarterly dividends on our 6.00% fixed-rate non-cumulative perpetual preferred stock, Series B (the “Series B Preferred Stock”), our 6.25% fixed-rate non-cumulative perpetual preferred stock, Series C (the “Series C Preferred Stock”), our 6.70% fixed-rate non-cumulative perpetual preferred stock, Series D (the “Series D Preferred Stock”) and our Series F Preferred Stock, as well as semi-annual dividends on our fixed-to-floating rate non-cumulative perpetual preferred stock, Series E (the “Series E Preferred Stock”) payable on December 1, 2015 to stockholders of record at the close of business on November 16, 2015. Based on these declarations, the Company will pay approximately \$213 million in common equity dividends and approximately \$68 million in total preferred dividends in the fourth quarter of 2015. Under the terms of our outstanding preferred stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the preferred stock for the immediately preceding dividend period.

We paid common stock dividends of \$0.40 per share in the third quarter of 2015. 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; and \$16.75 per share on the outstanding shares of our Series D Preferred Stock during the third quarter of 2015.

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. As of September 30, 2015, funds available for dividend payments from COBNA and CONA were \$2.4 billion and \$164 million, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

In addition, consistent with our 2015 capital plan, our Board of Directors has authorized the repurchase of up to \$3.125 billion of shares of common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016. Through the end of the third quarter of 2015, we repurchased approximately \$1.3 billion of common stock as part of the 2015 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 2014 Form 10-K.

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RISK MANAGEMENT

Overview

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

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

Our risk framework consists of the following eight key elements:

• Establish Governance Processes, Accountabilities, and Risk Appetites

• Identify and Assess Risks and Ownership

• Develop and Operate Controls, Monitoring and Mitigation Plans

• Test and Detect Control Gaps and Perform Corrective Action

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

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

• Support with the Right Culture, Talent and Skills

• Enable with the Right Data, Infrastructure and Programs

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

CREDIT RISK PROFILE

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

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

Loan Portfolio Composition

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

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Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of September 30, 2015 and December 31, 2014. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled \$566 million and \$626 million as of September 30, 2015 and December 31, 2014, respectively.

Table 17: Loan Portfolio Composition

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Loans	% of Total	Loans	% of Total
Credit Card:				
Domestic credit card ⁽¹⁾	\$82,178	38.5%	\$77,704	37.3%
International credit card	7,957	3.7	8,172	3.9
Total credit card	90,135	42.2	85,876	41.2
Consumer Banking:				
Auto	41,052	19.3	37,824	18.2
Home loan	26,340	12.3	30,035	14.4
Retail banking	3,598	1.7	3,580	1.7
Total consumer banking	70,990	33.3	71,439	34.3
Commercial Banking:				
Commercial and multifamily real estate	23,585	11.0	23,137	11.1
Commercial and industrial	27,873	13.1	26,972	12.9
Total commercial lending	51,458	24.1	50,109	24.0
Small-ticket commercial real estate	654	0.3	781	0.4
Total commercial banking	52,112	24.4	50,890	24.4
Other loans	92	0.1	111	0.1
Total loans held for investment	\$213,329	100.0%	\$208,316	100.0%

(1) Includes installment loans of \$97 million and \$144 million as of September 30, 2015 and December 31, 2014, respectively.

Commercial Loans

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

Table of ContentsTable 18: Commercial Loans by Industry⁽¹⁾

(Percentage of portfolio)	September 30, 2015	December 31, 2014
Real estate	40%	41%
Finance and insurance	13	12
Oil and gas	6	7
Healthcare	5	5
Business services	5	5
Public administration	5	5
Construction and land	5	4
Educational services	5	4
Retail trade	4	4
Transportation	3	4
Other	9	9
Total	100%	100%

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

Acquired Loans

Our portfolio of loans held for investment includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. See “MD&A—Glossary and Acronyms” for the definition of ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition. Acquired Loans are accounted for based on the cash flows expected to be collected, which were \$19.7 billion as of September 30, 2015 compared to \$23.5 billion as of December 31, 2014.

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

Home Loans

The majority of our home loan portfolio was acquired in the ING Direct and CCB acquisitions. These acquisitions also represent 99.2% and 98.9% of our total Acquired Loans as of September 30, 2015 and December 31, 2014, respectively. The expected cash flows for our acquired home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield.

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

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

Table 19: Home Loans - Risk Profile by Lien Priority

(Dollars in millions)	September 30, 2015					
	Loans		Acquired Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	\$5,764	21.9%	\$19,246	73.1%	\$25,010	95.0%
2nd lien	1,000	3.8	330	1.2	1,330	5.0
Total	\$6,764	25.7%	\$19,576	74.3%	\$26,340	100.0%
(Dollars in millions)	December 31, 2014					
	Loans		Acquired Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	\$5,756	19.2%	\$22,883	76.2%	\$28,639	95.4%
2nd lien	1,038	3.4	358	1.2	1,396	4.6
Total	\$6,794	22.6%	\$23,241	77.4%	\$30,035	100.0%

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

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

Table 20: Sensitivity Analysis - Acquired Loans - Home Loan Portfolio⁽¹⁾

(Dollars in millions)	September 30, 2015	Estimated Impact
Expected cash flows	\$ 23,159	\$(63)
Accretable yield	3,610	77
Allowance for loan and lease losses	27	140

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

Credit Risk Measurement

We closely monitor economic conditions and loan performance trends to assess and manage our exposure to credit risk. Key metrics we track in evaluating the credit quality of our loan portfolio include delinquency and nonperforming asset rates, as well as net charge-off rates and our internal risk ratings of larger balance commercial loans. Trends in delinquency rates are a primary indicator of credit risk within our consumer loan portfolios, as changes in delinquency rates provide an early warning of changes in credit 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

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our management of credit lines and collection strategies based on customer behavior and risk profile changes. We use borrower credit scores for subprime classification, for competitive benchmarking and, in some cases, to drive product segmentation decisions.

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

Table 21: Credit Score Distribution

(Percentage of portfolio)	September 30, 2015	December 31, 2014	September 30, 2014
Domestic credit card - Refreshed FICO scores: ⁽¹⁾			
Greater than 660	66%	68%	68%
660 or below	34	32	32
Total	100%	100%	100%
Auto - At origination FICO scores: ⁽²⁾			
Greater than 660	50%	47%	46%
621 - 660	17	17	16
620 or below	33	36	38
Total	100%	100%	100%

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

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

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

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

Delinquency Rates

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

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

Table 22: 30+ Day Delinquencies

(Dollars in millions)	September 30, 2015				December 31, 2014			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾	Amount	Rate ⁽¹⁾
Credit Card:								
Domestic credit card	\$2,697	3.28%	\$2,697	3.28%	\$2,538	3.27%	\$2,538	3.27%
International credit card	224	2.81	270	3.39	240	2.94	294	3.60
Total credit card	2,921	3.24	2,967	3.29	2,778	3.24	2,832	3.30
Consumer Banking:								
Auto	2,503	6.10	2,704	6.59	2,486	6.57	2,682	7.09
Home loan ⁽²⁾	47	0.18	248	0.94	64	0.21	302	1.01
Retail banking	22	0.62	43	1.20	23	0.64	40	1.11
Total consumer banking ⁽²⁾	2,572	3.62	2,995	4.22	2,573	3.60	3,024	4.23
Commercial Banking:								
Commercial and multifamily real estate	60	0.25	64	0.27	85	0.37	117	0.51
Commercial and industrial	58	0.21	251	0.90	15	0.05	73	0.27
Total commercial lending	118	0.23	315	0.61	100	0.20	190	0.38
Small-ticket commercial real estate	2	0.36	6	0.97	6	0.72	10	1.28
Total commercial banking	120	0.23	321	0.62	106	0.21	200	0.39
Other loans	3	3.81	11	11.59	3	2.84	14	12.23
Total ⁽²⁾	\$5,616	2.63	\$6,294	2.95	\$5,460	2.62	\$6,070	2.91

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

Excluding the impact of Acquired Loans, the 30+ day performing delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 0.69%, 5.01% and 2.90%, respectively, as of

(2) September 30, 2015, and 0.94%, 5.34%, and 2.95%, respectively, as of December 31, 2014. Excluding the impact of Acquired Loans, the 30+ day delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 3.66%, 5.83% and 3.25%, respectively, as of September 30, 2015, and 4.45%, 6.28%, and 3.28%, respectively, as of December 31, 2014.

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

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

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Total loans held for investment	\$213,329	100.00%	\$208,316	100.00%
Delinquency status:				
30 – 59 days	\$2,899	1.36%	\$2,841	1.36%
60 – 89 days	1,546	0.72	1,424	0.68
90 + days	1,849	0.87	1,805	0.87
Total	\$6,294	2.95%	\$6,070	2.91%
Geographic region:				
Domestic	\$6,024	2.82%	\$5,776	2.77%

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International	270	0.13	294	0.14
Total	\$6,294	2.95%	\$6,070	2.91%

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

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

Table 24: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Amount	% of Total Loans ⁽¹⁾	Amount	% of Total Loans ⁽¹⁾
Loan category:				
Credit card	\$1,261	1.40%	\$1,254	1.46%
Consumer banking	—	0.00	1	0.00
Commercial banking	1	0.00	8	0.01
Total	\$1,262	0.59	\$1,263	0.61
Geographic region:				
Domestic	\$1,197	0.58%	\$1,190	0.59%
International	65	0.82	73	0.90
Total	\$1,262	0.59	\$1,263	0.61

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

Nonperforming Loans and Nonperforming Assets

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

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

Table 25: Nonperforming Loans and Other Nonperforming Assets⁽¹⁾

(Dollars in millions)	September 30, 2015		December 31, 2014	
	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Nonperforming loans held for investment:				
Credit Card:				
International credit card	\$61	0.77%	\$70	0.86%
Total credit card	61	0.07	70	0.08
Consumer Banking:				
Auto	201	0.49	197	0.52
Home loan ⁽²⁾	310	1.18	330	1.10
Retail banking	27	0.74	22	0.61
Total consumer banking ⁽²⁾	538	0.76	549	0.77
Commercial Banking:				