CAPITAL ONE FINANCIAL CORP
Form 10-K
February 21, 2018

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2017
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-13300

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

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

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

Securities registered pursuant to section 12(b) of the act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.01 per share)	New York Stock Exchange
Warrants (expiring November 14, 2018)	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series F	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H	New York Stock Exchange

Securities registered pursuant to section 12(g) of the act: None

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Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days.
Yes ý No ¨
Indicate by check mark whether the registrant has submitted electronically and posted on its corporate website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes ý No ¨
Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨
Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company. or an emerging growth company. See the definitions of "large accelerated filer," "accelerated filer," "smaller reporting company," and "emerging growth company" in Rule 12b-2 of the Exchange Act.

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

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý
The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2017 was approximately $39.2 billion. As of January 31, 2018, there were 486,287,085 shares of the registrant's Common Stock outstanding.
DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 3, 2018, are incorporated by reference into Part III.

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PART I

Item 1. Business

OVERVIEW

General

Capital One Financial Corporation, a Delaware corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company" or "Capital One") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels.

As of December 31, 2017, our principal subsidiaries included:

- Capital One Bank (USA), National Association ("COBNA"), which offers credit and debit card products, other lending products and deposit products; and
- Capital One, National Association ("CONA"), which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

The Company is hereafter collectively referred to as "we," "us" or "our." COBNA and CONA are collectively referred to as the "Banks." References to "this Report" or our "2017 Form 10-K" or "2017 Annual Report" are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2017. All references to 2017, 2016, 2015, 2014 and 2013, refer to our fiscal years ended, or the dates, as the context requires, December 31, 2017, December 31, 2016, December 31, 2015, December 31, 2014 and December 31, 2013, respectively. Certain business terms used in this document are defined in the "MD&A—Glossary and Acronyms" and should be read in conjunction with the Consolidated Financial Statements included in this Report.

As one of the nation's ten largest banks based on deposits as of December 31, 2017, we service banking customer accounts through the internet and mobile banking, as well as through Cafés, ATMs and branch locations primarily across New York, Louisiana, Texas, Maryland, Virginia, New Jersey and the District of Columbia. We also operate the largest online direct bank in the United States ("U.S.") by deposits. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and other consumer lending products in markets across the United States. We were the third largest issuer of Visa® ("Visa") and MasterCard® ("MasterCard") credit cards in the U.S. based on the outstanding balance of credit card loans as of December 31, 2017. We also offer products outside of the U.S. principally through Capital One (Europe) plc ("COEP"), an indirect subsidiary of COBNA organized and located in the United Kingdom ("U.K."), and through a branch of COBNA in Canada. Both COEP and our branch of COBNA in Canada have the authority to provide credit card loans.

Business Developments

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

On November 7, 2017, we announced our decision to cease new originations of residential mortgage and home equity loan products within our Consumer Banking business. We continue to service our existing home loan portfolio.

On September 25, 2017, we completed the acquisition from Synovus Bank of credit card assets and related liabilities of World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated ("Cabela's acquisition"). The Cabela's acquisition added approximately $5.7 billion to our domestic credit card loans held for investment portfolio as of the acquisition date. See "Note 2—Business Developments and Discontinued Operations" for additional details.

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On December 1, 2015, we completed the acquisition of the Healthcare Financial Services business of General Electric Capital Corporation ("HFS acquisition"). Including post-closing purchase price adjustments, we recorded approximately $9.2 billion in assets, including $8.2 billion of loans.

Additional Information

Our common stock trades on the New York Stock Exchange ("NYSE") under the symbol "COF" and is included in the Standard & Poor's ("S&P") 100 Index. We maintain a website at www.capitalone.com. Documents available under Corporate Governance in the Investor Relations section of our website include:

- our Code of Business Conduct and Ethics for the Corporation;
- our Corporate Governance Guidelines; and
- charters for the Audit, Compensation, Governance and Nominating, and Risk Committees of the Board of Directors.

These documents also are available in print to any stockholder who requests a copy. We intend to disclose future amendments to certain provisions of our Code of Business Conduct and Ethics, and waivers of our Code of Business Conduct and Ethics granted to executive officers and directors, on the website within four business days following the date of the amendment or waiver.

In addition, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filing or furnishing such material to the U.S. Securities and Exchange Commission ("SEC").

OPERATIONS AND BUSINESS SEGMENTS

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

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

- Credit Card: Consists of our domestic consumer and small business card lending, and international card businesses in Canada and the United Kingdom.
- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, national auto lending and our consumer home loan portfolio and associated servicing activities.
- Commercial Banking: Consists of our lending, deposit gathering, capital markets and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between $20 million and $2 billion.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volume and the level of outstanding loan receivables due to seasonal variances in consumer spending and payment patterns which, for example, are highest around the winter holiday season. No individual quarter in 2017, 2016 or 2015 accounted for more than 30% of our total revenues in any of these fiscal years. Net charge-off rates in our Credit Card and Consumer Banking businesses also have historically exhibited seasonal patterns and generally tend to be the highest in the first and fourth quarters of the year.

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For additional information on our business segments, including the financial performance of each business, see "Part II—Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")—Executive Summary and Business Outlook," "MD&A—Business Segment Financial Performance" and "Note 18—Business Segments" of this Report.

COMPETITION

Each of our business segments operates in a highly competitive environment, and we face competition in all aspects of our business from numerous bank and non-bank providers of financial services.

Our Credit Card business competes with international, national, regional and local issuers of Visa and MasterCard credit cards, as well as with American Express®, Discover Card®, private-label card brands, and, to a certain extent, issuers of debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit, reward programs and other product features.

Our Consumer Banking and Commercial Banking businesses compete with national, state and direct banks for deposits, commercial and auto loans, as well as with savings and loan associations and credit unions for loans and deposits. Our competitors also include automotive finance companies, commercial mortgage banking companies and other financial services providers that provide loans, deposits, and other similar services and products. In addition, we compete against non-depository institutions that are able to offer these products and services. Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type could significantly change the competitive environment in which we conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, competition among direct banks is intense because online banking provides customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

Our businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition varies based on the types of clients, customers, industries and geographies served. Our ability to compete depends, in part, on our ability to attract and retain our associates and on our reputation. Our decision to cease new originations of residential mortgage and home equity loan products within our Consumer Banking business was informed, in part, by the competitive landscape for those products. That decision notwithstanding, we believe that we are able to compete effectively in our current markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop, or by the broader economic environment. For a discussion of the risks related to our competitive environment, please refer to "Part I—Item 1A. Risk Factors."

SUPERVISION AND REGULATION

General

Capital One Financial Corporation is a bank holding company ("BHC") and a financial holding company ("FHC") under the Bank Holding Company Act of 1956, as amended ("BHC Act"), and is subject to the requirements of the BHC Act, including approval requirements for investments in or acquisitions of banking organizations, capital adequacy standards and limitations on nonbanking activities. As a BHC and FHC, we are subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Permissible activities for a BHC include those activities that are so closely related to banking as to be a proper incident thereto. In addition, an FHC is permitted to engage in activities considered to be financial in nature (including, for example, securities underwriting and dealing and merchant banking activities), incidental to financial activities or, if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general, activities complementary to financial activities.

To become and remain eligible for financial holding company status, a BHC and its subsidiary depository institutions must meet certain criteria, including capital, management and Community Reinvestment Act ("CRA") requirements. Failure to meet such criteria could result, depending on which requirements were not met, in the Company facing restrictions on new financial activities or acquisitions or being required to discontinue existing activities that are not generally permissible for BHCs.

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The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. The Banks are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency ("OCC"), the FDIC and the Consumer Financial Protection Bureau ("CFPB").

We are also registered as a financial institution holding company under the law of the Commonwealth of Virginia and, as such, we are subject to periodic examination by the Virginia Bureau of Financial Institutions. We also face regulation in the international jurisdictions in which we conduct business (see below under "Regulation of Businesses by Authorities Outside the United States").

Regulation of Business Activities

The business activities of the Company and Banks are also subject to regulation and supervision under various laws and regulations.

Regulations of Consumer Lending Activities

The activities of the Banks as consumer lenders are subject to regulation under various federal laws, including, for example, the Truth in Lending Act ("TILA"), the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the CRA, the Servicemembers Civil Relief Act and the Military Lending Act, as well as under various state laws. We are also subject to the Credit Card Accountability Responsibility and Disclosure Act, which amended the TILA, and which imposes a number of restrictions on credit card practices impacting rates and fees, requires that a consumer's ability to pay be taken into account before issuing credit or increasing credit limits, and imposes revised disclosures required for open-end credit.

Depending on the underlying issue and applicable law, regulators may be authorized to impose penalties for violations of these statutes and, in certain cases, to order banks to compensate customers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws may also affect the ability of a bank, including the Banks, to collect outstanding balances owed by borrowers.

Mortgage Lending

The CFPB has issued several rules pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that provide additional disclosure requirements and substantive limitations on our mortgage lending activities. Although we announced our decision to cease new originations of residential mortgage and home equity loan products within our Consumer Banking business, these rules could still impact pending mortgage loan applications and our servicing activities.

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. Final rules adopted by the Federal Reserve to implement these requirements limit interchange fees per debit card transaction to $0.21 plus five basis points of the transaction amount and provide for an additional $0.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements.

Bank Secrecy Act and USA PATRIOT Act of 2001

The Bank Secrecy Act and the USA PATRIOT Act of 2001 ("Patriot Act") require financial institutions, among other things, to implement a risk-based program reasonably designed to prevent money laundering and to combat the financing of terrorism, including through suspicious activity and currency transaction reporting, compliance, record-keeping and customer due diligence.

In May 2016, the United States Department of the Treasury's Financial Crimes Enforcement Network issued a final rule making customer due diligence a required, stand-alone part of the anti-money laundering programs financial institutions must maintain under the Bank Secrecy Act. For these purposes, the term "customer due diligence" refers to customer identification and verification, beneficial ownership identification and verification, understanding the nature and purpose of customer relationships to develop a customer risk profile, ongoing monitoring for reporting suspicious transactions and, on a risk-adjusted basis, maintaining and updating customer information. The rule became effective on July 11, 2016 and requires full compliance by May 11, 2018 for Capital One and all other covered financial institutions.

The Patriot Act also contains financial transparency laws and provides enhanced information collection tools and enforcement mechanisms to the United States government, including due diligence and record-keeping requirements for private banking and correspondent accounts; standards for verifying customer identification at account opening; rules to produce certain records upon

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request of a regulator or law enforcement agency; and rules to promote cooperation among financial institutions, regulators and law enforcement agencies in identifying parties that may be involved in terrorism, money laundering and other crimes.

Funding

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), as discussed in "MD&A—Liquidity Risk Profile," only well-capitalized and adequately capitalized institutions may accept brokered deposits. Adequately capitalized institutions, however, must obtain a waiver from the FDIC before accepting brokered deposits, and such institutions may not pay rates that significantly exceed the rates paid on deposits of similar maturity obtained from the institution's normal market area or, for deposits obtained from outside the institution's normal market area, the national rate on deposits of comparable maturity. The FDIC is authorized to terminate a bank's deposit insurance upon a finding by the FDIC that the bank's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank's regulatory agency. The termination of deposit insurance would likely have a material adverse effect on a bank's liquidity and earnings.

Nonbank Activities

Certain of our nonbank subsidiaries are subject to supervision and regulation by various other federal and state authorities. Capital One Securities, Inc. and Capital One Investing, LLC are registered broker-dealers regulated by the SEC and the Financial Industry Regulatory Authority. Our broker-dealer subsidiaries are subject, among other things, to net capital rules designed to measure the general financial condition and liquidity of a broker-dealer. Under these rules, broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and to keep a substantial portion of their assets in relatively liquid form. These rules also limit the ability of a broker-dealer to transfer capital to its parent companies and other affiliates.

Broker-dealers are also subject to regulations covering their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees.

Capital One Asset Management, LLC and Capital One Advisors, LLC are SEC-registered investment advisers regulated under the Investment Advisers Act of 1940. Capital One Asset Management, LLC, whose sole client is CONA, provides investment advice to CONA's private banking customers, including trusts, high net worth individuals, institutions, foundations, endowments and other organizations.

Capital One Agency LLC is a licensed insurance agency that provides both personal and business insurance services to retail and commercial clients. It is regulated by state insurance regulatory agencies in the states in which it operates.

Derivatives Activities

The Commodity Futures Trading Commission ("CFTC") and the SEC have jointly issued final rules further defining the Dodd-Frank Act's "swap dealer" definitions. Based on these rules, no Capital One entity is currently required to register with the CFTC or SEC as a swap dealer. The Dodd-Frank Act also requires all swap market participants to keep certain swap transaction records and report pertinent information to swap data repositories on a real-time and on-going basis. Further, each swap, group, category, type or class of swap that the CFTC or SEC determines must be cleared through a derivatives clearinghouse (unless the swap is eligible for a clearing exemption) must also be executed on a designated contract market ("DCM"), exchange or swap execution facility ("SEF"), unless no DCM, exchange or SEF has made the swap available for trading.

Volcker Rule

We and each of our subsidiaries, including the Banks, are subject to the "Volcker Rule," a provision of the Dodd-Frank Act that contains prohibitions on proprietary trading and certain investments in, and relationships with, covered funds (hedge funds, private equity funds and similar funds), subject to certain exemptions, in each case as the applicable terms are defined in the Volcker Rule and the implementing regulations. The implementing regulations also require that we, as a banking entity with $50 billion or more in total assets, establish and maintain an enhanced compliance program designed to ensure that we comply with the requirements of the regulations.

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Capital and Liquidity Regulation

The Company and the Banks are subject to capital adequacy guidelines adopted by the Federal Reserve and OCC. For a further discussion of the capital adequacy guidelines, see "MD&A—Capital Management," "MD&A—Liquidity Risk Profile" and "Note 12—Regulatory and Capital Adequacy."

Basel III and United States Capital Rules

In December 2010, the Basel Committee on Banking Supervision ("Basel Committee") published a framework for additional capital and liquidity requirements ("Basel III"), which included detailed capital ratios and buffers, subject to transition periods. The Federal Reserve, OCC and FDIC (collectively, the "Federal Banking Agencies") issued a final rule that implemented Basel III and certain Dodd-Frank Act and other capital provisions and updated the prompt corrective action ("PCA") framework to reflect the new regulatory capital minimums ("Basel III Capital Rule"). The Basel III Capital Rule increased the minimum capital that we and other institutions are required to hold. The Basel III Capital Rule includes the "Basel III Standardized Approach" and the "Basel III Advanced Approaches."

The Basel III Advanced Approaches are mandatory for institutions with total consolidated assets of $250 billion or more or total consolidated on-balance-sheet foreign exposure of $10 billion or more. We became subject to the predecessor of these rules at the end of 2012. Prior to full implementation of the Basel III Advanced Approaches, however, a covered organization must complete a qualification period, known as the parallel run, during which it must demonstrate that it meets the requirements of the rule to the satisfaction of its primary United States banking regulator. We entered parallel run on January 1, 2015. A parallel run must last at least four quarters, but in practice United States banks have taken considerably longer to complete parallel runs.

Notwithstanding the Basel III Advanced Approaches, the Basel III Capital Rule also established a capital floor so that organizations subject to the Basel III Advanced Approaches may not hold less capital than would be required using the Basel III Standardized Approach capital calculations.

The Basel III Capital Rule revised the definition of regulatory capital, established a new common equity Tier 1 capital requirement, set higher minimum capital ratio requirements, introduced a new capital conservation buffer of 2.5%, introduced a new countercyclical capital buffer (currently set at 0.0%) and updated the PCA framework. Compliance with certain aspects of the Basel III Capital Rule went into effect for Capital One as of January 1, 2014, and other provisions have gone or will go into effect according to various start dates and phase-in periods. 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, and the minimum requirements for the total risk-based capital ratio and Tier 1 leverage capital ratio remained the same. Both the capital conservation buffer and the countercyclical capital buffer are being phased-in over a transition period of four years that commenced on January 1, 2016. On January 1, 2014, we began to use the Basel III Capital Rule, with transition provisions, to calculate our regulatory capital, including for purposes of calculating our regulatory capital ratios. On January 1, 2015, we began to use the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios.

The Basel III Capital Rule also introduced a new supplementary leverage ratio for all Advanced Approaches banking organizations with a minimum requirement of 3.0%. The supplementary leverage ratio compares Tier 1 capital to total leverage exposure, which includes all on-balance sheet assets and certain off-balance sheet exposures, including derivatives and unused commitments. Given that we are in our Basel III Advanced Approaches parallel run, we calculate the ratio based on Tier 1 capital under the Standardized Approach. The minimum requirement for the supplementary leverage ratio became effective on January 1, 2018. As an Advanced Approaches banking organization, however, we were required to calculate and publicly disclose our supplementary leverage ratio beginning in the first quarter of 2015. For further information, see "MD&A—Capital Management."

Global systemically important banks ("G-SIBs") that are based in the United States are subject to an additional common equity Tier 1 capital requirement ("G-SIB Surcharge"). United States BHCs with total consolidated assets of $250 billion or more or total consolidated on-balance-sheet foreign exposure of $10 billion or more are required to determine annually whether they are considered to be a G-SIB for purposes of the G-SIB Surcharge. We are not a

G-SIB based on the most recent available data and thus we are not subject to a G-SIB Surcharge.
In October 2017, the Federal Banking Agencies proposed certain limited changes to the Basel III Capital Rule. There is uncertainty regarding how any of the proposed changes may impact the Basel III Standardized Approach and the Basel III Advanced Approaches.

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Additionally, in December 2017, the Basel Committee finalized certain modifications to the international Basel III capital standards, which would require rulemaking in the United States prior to becoming effective for United States banking organizations. There is uncertainty around which of those changes may be adopted in the United States and how those changes may impact the U.S. capital framework.

Market Risk Rule

The "Market Risk Rule" supplements both the Basel III Standardized Approach and the Basel III Advanced Approaches by requiring institutions subject to the Market Risk Rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to the lesser of:

- 10% or more of total assets; or
- $1 billion or more.

As of December 31, 2017, the Company and CONA are subject to the Market Risk Rule. See "MD&A—Market Risk Profile" below for additional information.

Basel III and United States Liquidity Rules

The Basel Committee has published a liquidity framework, which includes two standards for liquidity risk supervision, each subject to observation periods and transitional arrangements. One standard, the liquidity coverage ratio ("LCR"), seeks to promote short-term resilience by requiring organizations to hold sufficient high-quality liquid assets to survive a stress scenario lasting for 30 days. The other standard, the net stable funding ratio ("NSFR"), seeks to promote longer-term resilience by requiring sufficient stable funding over a one-year period based on the liquidity characteristics of its assets and activities.

As implemented in the United States, the LCR Rule applies to institutions with total consolidated assets of $250 billion or more or total consolidated on-balance sheet foreign exposure of $10 billion or more, and their respective consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets. As a result, the Company and the Banks are subject to the LCR Rule. The rule requires the Company and each of the Banks to hold an amount of eligible high-quality, liquid assets that equals or exceeds 100% of their respective projected net cash outflows over a 30-day period, each as calculated in accordance with the LCR Rule. The LCR Rule requires us to calculate the LCR daily as of July 1, 2016. Each company subject to the LCR Rule is required to make quarterly public disclosures of its LCR and certain related quantitative liquidity metrics, along with a qualitative discussion of its LCR. The Company is required to comply with these disclosure requirements beginning April 1, 2018.

In April 2016, the Federal Banking Agencies issued an interagency notice of proposed rulemaking regarding the U.S. implementation of the Basel III NSFR (the "Proposed NSFR"), which would apply to the same institutions subject to the LCR Rule. The Proposed NSFR would require us to maintain a sufficient amount of stable funding in relation to our assets, derivatives exposures and commitments over a one-year horizon period. While the Proposed NSFR is generally consistent with the Basel NSFR standard, it is more stringent in certain areas. The financial and operational impact on us of a final NSFR rule remains uncertain until a final rule is published. There is uncertainty regarding the timing and form of any final rule implementing the NSFR in the United States.

In general, U.S. implementation of the above capital and liquidity rules has increased capital and liquidity requirements for us. We will continue to monitor regulators' implementation of the new capital and liquidity rules and assess the potential impact to us.

FDICIA and Prompt Corrective Action

The FDICIA requires Federal Banking Agencies to take "prompt corrective action" for banks that do not meet minimum capital requirements. The FDICIA establishes five capital ratio levels: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to an adequately capitalized institution. The capital categories are determined solely for purposes of applying the FDICIA's PCA provisions, and such capital categories may not constitute an accurate representation of the Banks' overall financial condition or prospects.

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As noted above, the Basel III Capital Rule updated the PCA framework to reflect new, higher regulatory capital minimums. For an insured depository institution to be well capitalized, it must maintain a total risk-based capital ratio of 10% or more; a Tier 1 capital ratio of 8% or more; a common equity Tier 1 capital ratio of 6.5% or more; and a leverage ratio of 5% or more. An adequately capitalized depository institution must maintain a total risk-based capital ratio of 8% or more; a Tier 1 capital ratio of 6% or more; a common equity Tier 1 capital ratio of 4.5% or more; a leverage ratio of 4% or more; and, for Basel III Advanced Approaches institutions, a supplementary leverage ratio, which incorporates a broader set of exposures as noted above, of 3% or more. The revised PCA requirements became effective on January 1, 2015, other than the supplementary leverage ratio, which became effective on January 1, 2018. Under applicable regulations for 2014, before the PCA requirements became effective, an insured depository institution was considered to be well capitalized if it maintained a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage capital ratio of at least 5% and was not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital measure. The PCA provisions also authorize the Federal Banking Agencies to reclassify a bank's capital category or take other action against banks that are determined to be in an unsafe or unsound condition or to have engaged in unsafe or unsound banking practices.

As an additional means to identify problems in the financial management of depository institutions, the FDICIA required the Federal Banking Agencies to establish certain non-capital safety and soundness standards. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The Federal Banking Agencies are authorized to take action against institutions that fail to meet such standards.

Enhanced Prudential Standards and Other Requirements Under the Dodd-Frank Act

As a BHC with total consolidated assets of $50 billion or more (a "covered company"), we are subject under the Dodd-Frank Act to certain enhanced prudential standards, including requirements that may be recommended by the Financial Stability Oversight Council ("FSOC") and implemented by the Federal Reserve and other regulators. As a result, we are subject to more stringent standards and requirements than those applicable to smaller institutions. The FSOC may also issue recommendations to the Federal Reserve or other primary financial regulatory agencies to apply new or enhanced standards to certain financial activities or practices.

The Federal Reserve and FDIC have issued rules requiring covered companies to implement resolution planning for orderly resolution in the event the Company faces material financial distress or failure. The FDIC issued similar rules regarding resolution planning applicable to the Banks. In addition, the OCC issued final guidelines in September 2016 that require the Banks to develop recovery plans detailing the actions they would take to remain a going concern when they experience considerable financial or operational stress, but have not deteriorated to the point that resolution is imminent.

The Federal Reserve established a rule that implements the requirement in the Dodd-Frank Act that the Federal Reserve conduct annual stress tests on the capacity of our capital to absorb losses as a result of adverse economic conditions. The stress test rule also implements the requirement that we conduct our own semiannual stress tests and requires us to publish the results of the stress tests on our website or other public forum. The OCC adopted a similar stress test rule to implement the requirement that each of the Banks conduct annual stress tests.

The Federal Reserve has finalized other rules implementing certain other aspects of the enhanced prudential standards under the Dodd-Frank Act, which were applicable to us beginning on January 1, 2015 ("Enhanced Standards Rule"). Under the Enhanced Standards Rule, we must meet liquidity risk management standards, conduct internal liquidity stress tests, and maintain a 30-day buffer of highly liquid assets, in each case, consistent with the requirements of the rule. These requirements are in addition to the LCR, discussed above in "Basel III and United States Liquidity Rules." The Enhanced Standards Rule also requires that we comply with, and hold capital commensurate with, the requirements of, any regulations adopted by the Federal Reserve relating to capital planning and stress tests. Stress testing and capital planning regulations are discussed further below under "Dividends, Stock Repurchases and Transfers of Funds." The Enhanced Standards Rule also requires that we establish and maintain an enterprise-wide risk management framework that includes a risk committee and a chief risk officer.

Although not a requirement of the Dodd-Frank Act, the OCC established regulatory guidelines ("Heightened Standards Guidelines") that apply heightened standards for risk management to large institutions subject to its supervision, including the Banks. The Heightened Standards Guidelines establish standards for the development and implementation by the Banks of a risk governance framework.

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Investment in the Company and the Banks

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval, including under the BHC Act and the Change in Bank Control Act ("CIBC Act").

Federal law and regulations prohibit any person or company from acquiring control of the Company or the Banks without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control exists if, among other things, a person or company acquires more than 25% of any class of our voting stock or otherwise has a controlling influence over us. For a publicly traded BHC like us, a rebuttable presumption of control arises under the CIBC Act if a person or company acquires more than 10% of any class of our voting stock.

Additionally, COBNA and CONA are "banks" within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions ("Financial Institution Holding Company Act"). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions.

Dividends, Stock Repurchases and Transfers of Funds

Under the Federal Reserve's capital planning rules applicable to large BHCs including us (commonly referred to as Comprehensive Capital Analysis and Review or "CCAR"), a BHC with total consolidated assets of $50 billion or more must submit a capital plan to the Federal Reserve 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"). A covered BHC may take the proposed capital actions if the Federal Reserve does not object to the plan.

Dodd-Frank Act stress testing, described above in "Enhanced Prudential Standards and Other Requirements under the Dodd-Frank Act," is a complementary exercise to CCAR. It is a forward-looking exercise conducted by the Federal Reserve and covered financial companies to help assess whether a company has sufficient capital to absorb losses and support operations during adverse economic conditions. The supervisory stress test, after incorporating a firm's planned capital actions, is used for quantitative assessment in CCAR.

As part of its evaluation of a large BHC's capital plan, the Federal Reserve will consider how comprehensive the plan is, the reasonableness of the assumptions, analysis and methodologies used therein to assess capital adequacy and the ability of the BHC to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters. The annual CCAR cycle measures our capital levels under the Basel III Standardized Approach, with appropriate phase-in provisions applicable to Capital One. The Federal Reserve has indefinitely delayed incorporation of the Basel III Advanced Approaches into the capital planning and stress testing process. The Company must file its capital plan and stress testing results with the Federal Reserve by April 5, 2018, using data as of the end of the prior calendar year. The Federal Reserve is expected to provide its objection or non-objection to that capital plan the following June. The Federal Reserve's objection or non-objection applies to planned capital actions from the third quarter of the year the capital plan is submitted through the end of the second quarter of the following year. The Company, along with other BHCs subject to the supplementary leverage ratio, must incorporate an estimate of its supplementary leverage ratio into its capital plan and stress tests.

For annual company-run stress tests, a covered BHC is required to disclose the results within 15 calendar days after the Federal Reserve discloses the results of the BHC's supervisory stress test, unless that time period is extended by the Federal Reserve. For the mid-cycle company-run stress test, a BHC must disclose the results within 30 calendar days after the BHC submits the results of the test to the Federal Reserve, unless that time period is extended by the Federal Reserve.

The current capital planning and stress testing rules place supervisory focus on quarterly capital issuances and distributions by establishing a cumulative net distribution requirement. With certain limited exceptions, to the extent a BHC does not issue the amount of a given class of regulatory capital instrument that it projected in its capital plan, as measured on an aggregate basis beginning in the third quarter of the planning horizon, the BHC must reduce its capital distributions.

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In January 2017, the Federal Reserve issued revisions to its capital planning and stress testing rules for the 2017 cycle. Among the provisions applicable to the Company, the revisions decrease the amount of capital a company subject to the quantitative requirements of CCAR can distribute to shareholders outside of an approved capital plan without seeking prior approval from the Federal Reserve (known as the "de minimis exception"). Beginning April 1, 2017, if a company does not receive an objection to its capital plan, it may distribute up to 0.25% of its Tier 1 capital above the distributions in its capital plan, a reduction from the 1% of Tier 1 capital permitted previously. The revisions also impose a "blackout period," starting with the 2017 CCAR exercise, during the second calendar quarter on the ability of a firm subject to CCAR to submit prior notice of its intention to rely on the aforementioned de minimis exception or to submit a request for prior approval for a capital distribution that is not reflected in the firm's capital plan for which it has received a non-objection from the Federal Reserve.

Historically, dividends from the Company's direct and indirect subsidiaries have represented a major source of the funds we have used to pay dividends on our stock, make payments on corporate debt securities and meet our other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, provisions of Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. In general, federal and applicable state banking laws prohibit insured depository institutions, such as the Banks, from making dividend distributions without first obtaining regulatory approval if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards.

Deposit Insurance Assessments

Each of CONA and COBNA, as an insured depository institution, is a member of the DIF maintained by the FDIC. Through the DIF, the FDIC insures the deposits of insured depository institutions up to prescribed limits for each depositor. The FDIC sets a Designated Reserve Ratio ("DRR") for the DIF. To maintain the DIF, member institutions may be assessed an insurance premium, and the FDIC may take action to increase insurance premiums if the DRR falls below its required level.

The Dodd-Frank Act reformed the management of the DIF in several ways. It raised the minimum DRR to 1.35% (from the former minimum of 1.15%); removed the upper limit on the DRR; required that the reserve ratio reach 1.35% by September 30, 2020; required the FDIC, when setting deposit insurance assessments, to offset the effect on small insured depository institutions of meeting the increased reserve ratio; and eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reached certain levels. The FDIC has set the DRR at 2% and, in lieu of dividends, has established progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels. The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average total consolidated assets minus average tangible equity.

On March 15, 2016, the FDIC issued a final rule implementing Section 334(e) of the Dodd-Frank Act, which requires the FDIC to offset the effect on community banks of increasing the DIF reserve ratio from 1.15% to 1.35%. The rule imposes a new quarterly deposit insurance surcharge assessment, with an annual rate of 4.5 basis points, on insured depository institutions with assets of $10 billion or more, including the Banks. On August 30, 2016, the FDIC provided notice that the DIF Reserve Ratio exceeded the 1.15% threshold level, which triggered two changes in the deposit insurance assessments of the Banks. First, the initial assessment rates for all insured depository institutions, including the Banks, declined. Second, the surcharge assessment was applied. The FDIC has estimated that the reserve ratio will reach 1.35% in 2018; however, under the final rule, if the reserve ratio does not reach 1.35% by December 31, 2018, the FDIC will impose a one-time shortfall assessment on March 31, 2019 on depository institutions subject to the surcharge, including the Banks.

Source of Strength and Liability for Commonly Controlled Institutions

Under regulations issued by the Federal Reserve, a BHC must serve as a source of financial and managerial strength to its subsidiary banks (the so-called "source of strength doctrine"). The Dodd-Frank Act codified this doctrine. Under the "cross-guarantee" provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), insured depository institutions such as the Banks may be liable to the FDIC with respect to any loss incurred, or reasonably anticipated to be incurred, by the FDIC in connection with the default of, or FDIC assistance to, any commonly controlled insured depository institution. The Banks are commonly controlled within the meaning of the FIRREA cross-guarantee provision.

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FDIC Orderly Liquidation Authority

The Dodd-Frank Act provides the FDIC with liquidation authority that may be used to liquidate nonbank financial companies and BHCs if the Treasury Secretary, in consultation with the President and based on the recommendation of the Federal Reserve and another federal agency, determines that doing so is necessary, among other criteria, to mitigate serious adverse effects on United States financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation of a financial company would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies. The FDIC has issued rules implementing certain provisions of its liquidation authority and may issue additional rules in the future.

Regulation of Businesses by Authorities Outside the United States

COBNA is subject to regulation in foreign jurisdictions where it operates, currently in the United Kingdom and Canada.

United Kingdom

In the United Kingdom, COBNA operates through COEP, which was established in 2000 and is an authorized payment institution regulated by the Financial Conduct Authority (“FCA”) under the Payment Services Regulations 2009 and the Financial Services and Markets Act 2000. COEP’s indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation by the Federal Reserve as an “agreement corporation” under the Federal Reserve’s Regulation K.

Regulatory focus on Payment Protection Insurance (“PPI”) complaint handling has continued and PPI continues to be a key driver of consumer complaints to the Financial Ombudsman Service (“FOS”). In March 2017, following a period of extensive consultation, FCA announced that new rules in relation to PPI complaint handling would come into force on August 29, 2017. The new rules introduced: a 2-year deadline for PPI complaints to be brought against firms under the FCA complaint handling rules; rules setting out how firms should handle unfair relationship complaints about the non-disclosure of commission on the sale of PPI (following the court decision in Plevin v. Paragon Personal Finance (“Plevin Complaints”)); a requirement that by November 29, 2017 firms write to previously rejected PPI complainants that fall within the unfair relationship timelines to tell them of their right to raise a Plevin Complaint; and an FCA led, multi-channel communications campaign to raise customer awareness of the deadline and new complaint handling rules. The new rules are now in force and COEP is handling complaints under the new rules. A number of claims management firms and law firms are threatening to pursue Plevin Complaints via the courts, rather than as complaints, to try and secure a higher level of redress.

The FCA’s Credit Card Market Study continued throughout 2017 and will run into early 2018 before the FCA publishes final remedies and rules, with implementation expected to begin by the end of the second quarter of 2018 and through the course of the year.

On January 13, 2018, the new Payment Services Regulations 2017 (so called “PSD2” or “PSRs”) came into force following a 2-year implementation period after PSD2 became law in the European Union (“EU”) in January 2016. The new legislation replaces the previous Payment Services Regulations in its entirety; however, the principal effect of PSD2 is to improve consumer protection against fraud, possible abuses and payment incidents through enhanced security requirements through new Regulated Technical Standards on secure authentication, promote competition/innovation through new players and the development of innovative mobile and internet payments in Europe, and require COEP to adopt specific procedures for responding to Payments Services complaints. In particular, PSD2 requires banks and financial service providers to open up their systems to Payment Initiation Services (“PISPs”) (software bridges between a merchant website and online banking platform or payer’s bank) and Account Information Services (“AISPs”) (online services to provide consolidated information on one or more payment account, or account aggregation services).

The new data protection Regulation (so called “General Data Protection Regulation” or “GDPR”) on the protection of individuals’ personal data will come into force on May 25, 2018. GDPR brings heightened scrutiny of data processing activities and higher fines and sanctions for non-compliance with data protection legislation. In addition, the GDPR widens the territorial scope of EU privacy rules to organizations located outside the EU if they offer goods or services to or monitor EU citizen behaviors and introduces new compliance obligations, including financial penalties for noncompliance. The U.K. and the organizations in the U.K. are working to implement GDPR's requirements with a view for the country to obtain "Adequacy" status from the EU, reflecting a view that the U.K. protects personal data at a substantially equivalent level to the EU. Adequacy status would allow the free movement of data between the European Economic Area and the U.K. after Brexit, as defined below.

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Following a public referendum in mid-2016, the U.K. will leave the EU ("Brexit"). The U.K.'s negotiation with the EU on the terms of its departure and the U.K.'s subsequent relationship with the EU will continue throughout 2018 with no final decisions being made on any terms of the negotiation until all elements of it have been concluded. It is widely expected that the U.K. will enter into a transitional relationship with the EU after leaving the EU (scheduled currently for March 2019) during which time all current regulations and laws would remain applicable.

Canada

In Canada, COBNA operates as an authorized foreign bank pursuant to the Bank Act (Canada) ("Bank Act") and is permitted to conduct its credit card business in Canada through its Canadian branch, Capital One Bank (Canada Branch) ("Capital One Canada"). The primary regulator of Capital One Canada is the Office of the Superintendent of Financial Institutions Canada. Other regulators include the Financial Consumer Agency of Canada, the Office of the Privacy Commissioner of Canada, and the Financial Transactions and Reports Analysis Centre of Canada. Capital One Canada is subject to regulation under various Canadian federal laws, including the Bank Act and its regulations, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Personal Information Protection and Electronic Documents Act.

In April 2015, a voluntary agreement to reduce interchange fees among the Canadian federal government, MasterCard Canada and Visa Canada came into effect. The agreement contains a commitment to reduce interchange fees for consumer credit cards to an average of 1.5% and will remain in effect for 5 years. Although the Canadian federal government acknowledges independent audit findings that Visa and MasterCard have met their commitments to reduce interchange fees pursuant to the 5-year agreement terminating in 2020, the government is currently conducting a further assessment of interchange fees.

EMPLOYEES

A central part of our philosophy is to attract and retain highly capable staff. We had approximately 49,300 employees, whom we refer to as "associates," as of December 31, 2017. None of our associates are covered under a collective bargaining agreement, and management considers our associate relations to be satisfactory.

ADDITIONAL INFORMATION

Technology/Systems

We leverage information and technology to achieve our business objectives and to develop and deliver products and services that satisfy our customers' needs. A key part of our strategic focus is the development and use of efficient, flexible computer and operational systems, such as cloud technology, to support complex marketing and account management strategies, the servicing of our customers, and the development of new and diversified products. We believe that the continued development and integration of these systems is an important part of our efforts to reduce costs, improve quality and provide faster, more flexible technology services. Consequently, we continuously review capabilities and develop or acquire systems, processes and competencies to meet our unique business requirements.

As part of our continuous efforts to review and improve our technologies, we may either develop such capabilities internally or rely on third-party outsourcers who have the ability to deliver technology that is of higher quality, lower cost, or both. We continue to rely on third-party outsourcers to help us deliver systems and operational infrastructure. These relationships include (but are not limited to): Amazon Web Services, Inc. ("AWS") for our cloud infrastructure, Total System Services, Inc. ("TSYS") for processing services for our North American and U.K. portfolios of consumer, commercial and small business credit card accounts, Fidelity Information Services ("FIS") for certain of our banking systems and International Business Machines Corporation ("IBM") for mainframe managed services.

We safeguard our information and technology to reduce risk, implement backup and recovery systems, and generally require the same of our third-party service providers. We take measures that mitigate against known attacks and use internal and external resources to scan for vulnerabilities in platforms, systems, and applications necessary for delivering Capital One products and services.

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation and competition. We also undertake other measures to control access to, or distribution of, our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our industry. The ability of our competitors and other third parties to obtain such patents may adversely affect our ability to compete. Conversely, our ability to obtain such patents may increase our competitive advantage and/or preserve our freedom to operate certain technologies via cross-licenses or other arrangements with third parties. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results.

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FORWARD-LOOKING STATEMENTS

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

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

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

- general economic and business conditions in the U.S., the U.K., Canada or our local markets, including conditions affecting employment levels, interest rates, collateral values, consumer income, credit worthiness and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses, including increases due to a worsening of general economic conditions in the credit environment, and the impact of inaccurate estimates or inadequate reserves;
- compliance with financial, legal, regulatory, tax or accounting changes or actions, including the impacts of the Tax Act, the Dodd-Frank Act, and other regulations governing bank capital and liquidity standards;
- developments, changes or actions relating to any litigation, governmental investigation or regulatory enforcement action or matter involving us;
- the inability to sustain revenue and earnings growth;
- increases or decreases in interest rates;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;
- increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the amount and rate of deposit growth;
- our ability to execute on our strategic and operational plans;
- our response to competitive pressures;
- changes in retail distribution strategies and channels, including the emergence of new technologies and product delivery systems;
- the success of our marketing efforts in attracting and retaining customers;
- changes in the reputation of, or expectations regarding, the financial services industry or us with respect to practices, products or financial condition;
- any significant disruption in our operations or in the technology platforms on which we rely, including cybersecurity, business continuity and related operational risks, as well as other security failures or breaches of our systems or those of our customers, partners, service providers or other third parties;
- our ability to maintain a compliance and technology infrastructure suitable for the nature of our business;
- our ability to develop and adapt to rapid changes in digital technology to address the needs of our customers and comply with applicable regulatory standards, including our increasing reliance on third party infrastructure and compliance with data protection and privacy standards;

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- the effectiveness of our risk management strategies;
- our ability to control costs, including the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- the extensive use, reliability and accuracy of the models and data we rely on in our business;
- our ability to recruit and retain talented and experienced personnel;
- the impact from, and our ability to respond to, natural disasters and other catastrophic events, including hurricanes Harvey and Irma;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees, business partners or third parties;
- merchants' increasing focus on the fees charged by credit card networks; and
- other risk factors identified from time to time in our public disclosures, including in the reports that we file with the SEC.

Forward-looking statements often use words such as "will," "anticipate," "target," "expect," "estimate," "intend," "plan," "goa "believe" or other words of similar meaning. Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under "Part I—Item 1A. Risk Factors" in this report. You should carefully consider the factors discussed above, and in our Risk Factors or other disclosure, in evaluating these forward-looking statements.

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Item 1A. Risk Factors

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks of which we are aware at the time this Report has been filed, other risks may prove to be important in the future, including those that are not currently ascertainable. In addition to the factors discussed elsewhere in this Report, other factors that could cause actual results to differ materially from our forward-looking statements include:

General Economic and Market Risks

Changes And Instability In The Macroeconomic Environment May Adversely Affect Our Industry, Business, Results Of Operations And Financial Condition.

We offer a broad array of financial products and services to consumers, small businesses and commercial clients. We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom and offer banking and other services in many regions within the United States. A prolonged period of economic volatility, slow growth, or a significant deterioration in economic conditions, in the United States or one of these countries could have a material adverse effect on our financial condition and results of operations as customers default on their loans or maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

Some of the risks we may face in connection with adverse changes and instability in macroeconomic environment include the following:

- Payment patterns may change, causing increases in delinquencies and default rates, which could have a negative impact on our results of operations. In addition, changes in consumer confidence levels and behavior, including decreased consumer spending, lower demand for credit and a shift in consumer payment behavior towards avoiding late fees, finance charges and other fees, could have a negative impact on our results of operations.
- Increases in bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our results of operations.
- Our ability to recover debt that we have previously charged-off may be limited, which could have a negative impact on our results of operations.
- The process and models we use to estimate our allowance for loan and lease losses may become less reliable if volatile economic conditions, changes in the competitive environment, significant changes in customer behavior or other unexpected variations in key inputs and assumptions cause actual losses to diverge from the projections of our models. As a result, our estimates for credit losses may become increasingly subject to management’s judgment and high levels of volatility over short periods of time, which could negatively impact our results of operations. See “There Are Risks Resulting From The Extensive Use Of Models and Data In Our Business.”
- Risks associated with financial market instability and volatility could cause a material adverse effect on our liquidity and our funding costs. For example, increases in interest rates and our credit spreads could negatively impact our results of operations.
- Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and deteriorating investor expectations, which could limit our access to funding.
- While interest rates have risen from historic lows set in 2016, both shorter-term and longer-term interest rates remain below long-term historical averages and the yield curve has been relatively flat compared to past periods. A flat yield curve combined with low interest rates generally leads to lower revenue and reduced margins because it tends to limit our ability to increase the spread between asset yields and funding costs. Sustained periods of time with a flat yield curve coupled with low interest rates could have a material adverse effect on our earnings and our net interest margin.

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Regulatory Risk

Compliance With New And Existing Laws, Regulations And Regulatory Expectations May Increase Our Costs, Reduce Our Revenue, Limit Our Ability To Pursue Business Opportunities And Increase Compliance Challenges.

Legislation and regulation with respect to the financial services industry has increased in recent years, and we expect that oversight of our business may continue to expand in scope and complexity. A wide array of banking and consumer lending laws apply to almost every aspect of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including significant fines and criminal sanctions, and could result in negative publicity or damage to our reputation with regulators or the public. In addition, establishing systems and processes to achieve compliance with these laws and regulations may increase our costs and limit our ability to pursue certain business opportunities.

We are subject to heightened regulatory oversight by the federal banking regulators to ensure that we build systems and processes that are commensurate with the nature of our business and that meet the heightened risk management and enhanced prudential standards issued by our regulators. For example, over the last several years, state and federal regulators have focused on compliance with the Bank Secrecy Act and anti-money laundering laws, data integrity and security, use of service providers, fair lending and other consumer protection issues. In July 2015, Capital One entered into a consent order with the OCC to address concerns about our anti-money laundering ("AML") program ("AML Program"). Although we are making substantial progress in taking the steps and making the improvements required by the OCC consent order, we expect heightened oversight of our AML Program will continue for the foreseeable future. The Dodd-Frank Act, other regulatory reforms and implementing regulations have increased our need to develop, monitor and maintain compliance processes and infrastructure and to otherwise enhance our risk management throughout all aspects of our business. The cumulative impact of these changes also includes higher expectations for the amount of capital and liquidity we must maintain, as discussed in more detail below under the heading "We May Not Be Able To Maintain Adequate Capital Or Liquidity Levels, Which Could Have A Negative Impact On Our Financial Results And Our Ability To Return Capital To Our Shareholders," and higher operational costs, which may further increase as regulators continue to implement such reforms. United States government agencies charged with adopting and interpreting laws, rules and regulations, including under the Dodd-Frank Act, may do so in an unforeseen manner, including in ways that potentially expand the impact of such laws, rules or regulations on us more than initially contemplated or currently anticipated. Both Congress and the regulators continue to review the laws and regulations that could have impacts beyond those initially contemplated or currently anticipated.

We have a large number of customer accounts in our credit card and auto lending businesses and we have made the strategic choice to originate and service subprime credit cards and auto loans which typically have higher delinquencies and charge-offs than prime customers. Accordingly, we have significant involvement with credit bureau reporting and the collection and recovery of delinquent and charged-off debt, primarily through customer communications, the filing of litigation against customers in default, the periodic sale of charged-off debt and vehicle repossession. The banking industry is subject to enhanced legal and regulatory scrutiny regarding credit bureau reporting and debt collection practices from regulators, courts and legislators. Any future changes to our business practices in these areas, including our debt collection practices, whether mandated by regulators, courts, legislators or otherwise, or any legal liabilities resulting from our business practices, including our debt collection practices, could have a material adverse impact on our financial condition.

The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenue, costs, earnings, growth, liquidity and capital levels. In addition, some rules and regulations may be subject to litigation or other challenges that delay or modify their implementation and impact on us. For example, the Tax Act has resulted in material impacts to our results of operations due to changes to the valuation of our deferred tax assets, the valuation of other tax assets, and tax expense, and may affect customer behavior and our ability to forecast our effective tax rate. Many aspects of the Tax Act are unclear and may not be clarified for some time. As a result, we have not yet been able to determine the full impact of the new laws on our business, operating results and financial condition. For example, in the United Kingdom and Europe, continued regulatory uncertainty or changes arising from Brexit negotiations could adversely affect our U.K. operations.

Certain laws and regulations, and any interpretations and applications with respect thereto, may benefit consumers, borrowers and depositors, but not shareholders. Our success depends on our ability to maintain compliance with both existing and new laws and regulations. For a description of the material laws and regulations to which we are subject, please refer to “Part I—Item 1. Business—Supervision and Regulation.”

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Credit Risk

We May Experience Increased Delinquencies, Credit Losses, Inaccurate Estimates And Inadequate Reserves.

Like other lenders, we face the risk that our customers will not repay their loans. A customer's ability and willingness to repay us can be negatively impacted by increases in their payment obligations to other lenders, whether as a result of higher debt levels or rising interest rates, or by restricted availability of credit generally. We may fail to quickly identify customers that are likely to default on their payment obligations and reduce our exposure by closing credit lines and restricting authorizations, which could adversely impact our financial condition and results of operations. Our ability to manage credit risk also may be adversely affected by legal or regulatory changes (such as restrictions on collections, bankruptcy laws, minimum payment regulations and re-age guidance), competitors' actions and consumer behavior, as well as inadequate collections staffing, techniques and models.

Rising losses or leading indicators of rising losses (such as higher delinquencies, higher rates of non-performing loans, higher bankruptcy rates, lower collateral values or elevated unemployment rates) may require us to increase our allowance for loan and lease losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

- Missed Payments: Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition for our customers. Customers are more likely to miss payments during an economic downturn or prolonged periods of slow economic growth. In addition, we face the risk that consumer and commercial customer behavior may change (for example, an increase in the unwillingness or inability of customers to repay debt, which may be heightened by increasing interest rates or levels of consumer debt generally), causing a long-term rise in delinquencies and charge-offs.
- Estimates of Inherent Losses: The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold an allowance for loan and lease losses sufficient to account for these losses. Incorrect assumptions could lead to material underestimations of inherent losses and inadequate allowance for loan and lease losses. In cases where we modify a loan, if the modifications do not perform as anticipated we may be required to build additional allowance on these loans. The build or release of allowances impacts our current financial results.
- Underwriting: Our ability to accurately assess the creditworthiness of our customers may diminish, which could result in an increase in our credit losses and a deterioration of our returns. See "Our Risk Management Strategies May Not Be Fully Effective In Mitigating Our Risk Exposures In All Market Environments Or Against All Types Of Risk."
- Business Mix: We engage in a diverse mix of businesses with a broad range of potential credit exposure. Our business mix could change in ways that could adversely affect the credit quality of our portfolio. Because we originate a relatively greater proportion of consumer loans in our loan portfolio compared to other large bank peers and originate both prime and subprime credit card accounts and auto loans, we may experience higher delinquencies and a greater number of accounts charging off compared to other large bank peers, which could result in increased credit losses, operating costs and regulatory scrutiny.
- Charge-off Recognition / Allowance for Loan and Lease Losses: We account for the allowance for loan and lease losses according to accounting and regulatory guidelines and rules, including Financial Accounting Standards Board ("FASB") standards and the Federal Financial Institutions Examination Council ("FFIEC") Account Management Guidance. In June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance, which becomes effective on January 1, 2020, with early adoption permitted no earlier than January 1, 2019, requires use of a current expected credit loss ("CECL") model that is based on expected rather than incurred losses. Adoption of the CECL model could require changes in our account management or allowance for loan and lease losses practices, and may cause our allowance for loan and lease losses and credit losses to change materially.
- Industry Developments: Our charge-off and delinquency rates may be negatively impacted by industry developments, including new regulations applicable to our industry.

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- Collateral: The collateral we have on secured loans could be insufficient to compensate us for loan losses. When customers default on their secured loans, we attempt to recover collateral where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Decreases in real estate values adversely affect the collateral value for our commercial lending activities, while the auto business is similarly exposed to collateral risks arising from the auction markets that determine used car prices. Therefore, the recovery of such property could be insufficient to compensate us for the value of these loans. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments. Trends in home prices are a driver of credit costs in our home loan business as they impact both the probability of default and the loss severity of defaults. Additionally, the potential volatility in the number of defaulted and modified loans from changes in home prices can create material impacts on the servicing costs of the business, fluctuations in credit marks and profitability in acquired portfolios and volatility in mortgage servicing rights valuations. Although home prices have generally appreciated recently, the slow economic recovery, shifts in monetary policy and potentially diminishing demands from investors could threaten or limit the recovery. In our auto business, if vehicle prices experience declines, we could be adversely affected. For example, business and economic conditions that negatively affect household incomes, housing prices, and consumer behavior related to our businesses could decrease (i) the demand for new and used vehicles and (ii) the value of the collateral underlying our portfolio of auto loans, which could cause the number of consumers who become delinquent or default on their loans to increase.
- Geographic and Industry Concentration: Although our consumer lending is geographically diversified, approximately 30% of our commercial loan portfolio is concentrated in the tri-state area of New York, New Jersey and Connecticut. The regional economic conditions in the tri-state area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in, or a catastrophic event that disproportionately affects, the tri-state area could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations. In addition, our Commercial Banking strategy includes an industry-specific focus. If any of the industries that we focus on experience changes, we may experience increased credit losses and our results of operations could be adversely impacted. For example, as of December 31, 2017, energy-related loan balances represented approximately 4% of our total commercial loan portfolio. This amount is comprised of loans to commercial entities in the energy industry, such as exploration and production, oil field services, and pipeline transportation of gas and crude oil, as well as loans to entities in industries that are indirectly impacted by energy prices, such as petroleum wholesalers, oil and gas equipment manufacturing, air transportation, and petroleum bulk stations and terminals. In recent years, oil prices have fluctuated significantly, which has impacted many of the borrowers in this portfolio and the value of the collateral securing our loans to these borrowers. A prolonged period of declining oil prices could impair their ability to service loans outstanding to them and/or reduce demand for loans. If energy-related industries or any of the other industries that we focus on experience adverse changes, we may experience increased credit losses and our results of operations could be adversely impacted.

Capital and Liquidity Risk

We May Not Be Able To Maintain Adequate Capital Or Liquidity Levels, Which Could Have A Negative Impact On Our Financial Results And Our Ability To Return Capital To Our Shareholders.

As a result of the Dodd-Frank Act and the United States implementation of international accords, financial institutions are subject to new and increased capital and liquidity requirements, and we expect further changes to these regulations. Although United States regulators have finalized regulations for many of these requirements, continued uncertainty remains as to the form additional new requirements will take or how and when they will apply to us. As a result, it is possible that we could be required to increase our capital and/or liquidity levels above the levels assumed in our current financial plans. These new requirements could have a negative impact on our ability to lend, grow deposit balances or make acquisitions and limit our ability to make most capital distributions. Higher capital levels also lower our return on equity.

In addition, as described further above in “Part I—Item 1. Business—Supervision and Regulation,” for regulatory capital purposes we entered parallel run on January 1, 2015. We will become subject to the Basel III Advanced Approaches framework for purposes of determining our regulatory capital requirements once we receive regulatory approval to do so, although the exact timing of when such approval may be granted is uncertain. Although we have current estimates of risk-weighted asset calculations under that framework, there remains uncertainty around future regulatory interpretations of certain aspects of those calculations. Moreover, the so-called Collins Amendment to the Dodd-Frank Act, as implemented in the Basel III Capital Rule, establishes a capital floor so that organizations subject to the Basel III Advanced Approaches may not hold less capital than would be required using the

Basel III Standardized Approach capital calculations. Additionally, in December 2017 the Basel Committee on Banking Supervision finalized certain modifications to the international Basel III capital standards which, if implemented by the United States federal banking agencies, could alter regulatory capital requirements. Therefore, we cannot assure you that our current estimates will be correct, and we may need to hold significantly more regulatory capital in the future than we currently estimate to maintain a given capital ratio.

In April 2016, the United States federal banking agencies proposed a rule regarding the United States implementation of the net stable funding ratio ("Proposed NSFR"). See "Part I—Item 1. Business—Supervision and Regulation" for further details regarding the Proposed NSFR. The financial and operational impact on us of a final NSFR rule remains uncertain until a final rule is published, and there is uncertainty as to the combined impact of the existing Liquidity Coverage Ratio and any final NSFR on how we manage our business. See "Note 12—Regulatory and Capital Adequacy" and "Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfers of Funds" for additional information regarding recent developments in capital and liquidity requirements.

We consider various factors in the management of capital, including the impact of stress on our capital levels, as determined by both our internal modeling and the Federal Reserve's modeling of our capital position in supervisory stress tests and CCAR. There can be significant differences between our modeling and the Federal Reserve's estimates for a given scenario and between the capital needs suggested by our internal bank holding company scenarios relative to the supervisory scenarios. Therefore, although our estimated capital levels under stress disclosed as part of the CCAR or DFAST processes may suggest that we have substantial capacity to return capital to shareholders and remain well capitalized under stress, the Federal Reserve's modeling, our own modeling of another scenario or other factors related to our capital management process may result in a materially lower capacity to return capital to shareholders than that indicated by the projections released in the CCAR or DFAST processes. This in turn could lead to restrictions on our ability to pay dividends and engage in share repurchase transactions. See "Part I—Item 1. Business—Supervision and Regulation" for additional information.

Operational Risk

We Face Risks Related To Our Operational, Technological And Organizational Infrastructure.

Our ability to retain and attract new customers depends on our ability to build or acquire necessary operational, technological and organizational infrastructure or adapt to technological advances involving such infrastructure, which can be a challenge due to the fast pace of digital transformation and advances. We are embedding technology, data and software development deeply into our business model and how we work.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors related to failed or inadequate processes, inaccurate models, faulty or disabled computer systems, fraud by employees or persons outside of our company and exposure to external events. In addition, we are heavily dependent on the security, capability and continuous availability of the technology systems that we use to manage our internal financial and other systems, interface with our customers and develop and implement effective marketing campaigns. In addition, our businesses are dependent on our ability to process, record and monitor a large number of complex transactions. If any of our financial, accounting or other data processing systems fail or have other significant shortcomings, our business and reputation could be materially adversely affected. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, design flaws in foundational components or platforms, availability and quality of vulnerability patches from key vendors, cyber-attacks, including Distributed Denial of Service ("DDOS") attacks discussed below, natural disasters, other damage to property or physical assets or events arising from local or larger scale politics, including terrorist acts. Any of these occurrences could diminish our ability to operate our businesses, service customer accounts and protect customers' information, or result in potential liability to customers, reputational damage, regulatory intervention and customers' loss of confidence in our businesses, any of which could result in a material adverse effect.

We also rely on the business infrastructure and systems of third parties with which we do business and to whom we outsource the maintenance and development of operational and technological functionality. For example, we have migrated a number of, and intend to migrate substantially all, of our core systems and customer-facing applications to third-party cloud infrastructure platforms such as Amazon Web Services, Inc. If we do not execute the transition or administer these new environments in a well-managed, secure and effective manner, we may experience unplanned service disruption or unforeseen costs which may harm our business and operating results. We must successfully develop and maintain information, financial reporting, data-protection and other controls adapted to our reliance on new platforms and providers. In addition, our cloud infrastructure providers, or other service providers, could experience system breakdowns or failures, outages, downtime, cyber-attacks, adverse changes to financial condition, bankruptcy or other adverse conditions, which could have a material adverse effect on our business and reputation. Thus, the substantial amount of our infrastructure that we outsource to "the cloud" or to other third parties may increase our risk exposure.

Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality and reliability of our operational and technology systems. Any disruptions, failures or inaccuracies of our operational and technology systems and models, including those associated with improvements or modifications to such systems and models, could cause us to be unable to market and manage our products and services, manage our risk, meet our regulatory obligations or report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations. In addition, our ongoing investments in infrastructure, which are necessary to maintain a competitive business, integrate acquisitions and establish scalable operations, may increase our expenses. As our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We Could Incur Increased Costs, Reductions In Revenue And Suffer Reputational Damage And Business Disruptions In The Event Of The Theft, Loss Or Misuse Of Information, Including As A Result Of A Cyber-Attack.

Our products and services involve the gathering, management, processing, storage and transmission of sensitive and confidential information regarding our customers and their accounts, our employees and other third parties with which we do business. Our ability to provide such products and services, many of which are web-based, depends upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services to, as well as communicate with, our customers, we rely on information systems and infrastructure, including digital technologies, computer and email systems, software, networks and other web-based technologies, that we and third-party service providers operate. We also have arrangements in place with third parties through which we share and receive information about their customers who are or may become our customers.

Like other financial services firms, technologies, systems, networks and devices of Capital One or our customers, employees, service providers or other third parties with whom we interact continue to be the subject of attempted unauthorized access, mishandling or misuse of information, denial-of-service attacks, computer viruses, website defacement, hacking, malware, ransomware, phishing or other forms of social engineering, and other forms of cyber-attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, and other events. These threats may derive from human error, fraud or malice on the part of our employees, insiders or third parties or may result from accidental technological failure. Any of these parties may also attempt to fraudulently induce employees, customers or other third-party users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or third parties with whom we interact. Further, cyber and information security risks for large financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists, formal and informal instrumentalities of foreign governments and other external parties. In addition, to access our products and services, our customers may use computers, smartphones, tablet PCs and other mobile devices that are beyond our security control systems.

As a financial institution, we are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs. However, because the methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently, are increasingly sophisticated and often are not fully recognized or understood until after they have occurred, and some techniques could occur and persist for an extended period of time before being detected, we and our third-party service providers and partners may be unable to anticipate or identify certain attack methods in order to implement effective preventative measures or mitigate or remediate the damages caused in a timely manner. We may also be unable to hire and develop talent capable of detecting, mitigating or remediating these risks. Although we believe we have a robust suite of authentication and layered information security controls, including our cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and vulnerability management program, any one or combination of these controls could fail to detect, mitigate or remediate these risks in a timely manner. We may face an increasing number of attempted cyber-attacks as we expand our

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mobile- and other internet-based products and services, as well as our usage of mobile and cloud technologies and as we provide more of these services to a greater number of retail clients.

A disruption or breach, including as a result of a cyber-attack, or media reports of perceived security vulnerabilities at Capital One or at third-party service providers, could result in significant legal and financial exposure, regulatory intervention, remediation costs, card reissuance, supervisory liability, damage to our reputation or loss of confidence in the security of our systems, products and services that could adversely affect our business. We and other U.S. financial services providers continue to be targeted with evolving and adaptive cybersecurity threats from sophisticated third parties. Although we have not experienced any material losses relating to cyber incidents, there can be no assurance that unauthorized access or cyber incidents will not occur or that we will not suffer such losses in the future. Unauthorized access or cyber incidents could occur more frequently and on a more significant scale. If future attacks like these are successful or if customers are unable to access their accounts online for other reasons, it could adversely impact our ability to service customer accounts or loans, complete financial transactions for our customers or otherwise operate any of our businesses or services. In addition, a breach or attack affecting one of our third-party service providers or partners could harm our business even if we do not control the service that is attacked.

In addition, the increasing prevalence and the evolution of cyber-attacks and other efforts to breach or disrupt our systems or those of our partners, retailers or other market participants has led, and will likely continue to lead, to increased costs to us with respect to preventing, mitigating and remediating these risks, as well as any related attempted fraud. We may be required to expend significant additional resources to continue to modify or strengthen our protective security measures, investigate and remediate any vulnerabilities of our information systems and infrastructure or invest in new technology designed to mitigate security risks. For example, various retailers have continued to be victims of cyber-attacks in which customer data, including debit and credit card information, was obtained. In these situations, we incur a variety of costs, including those associated with replacing the compromised cards and remediating fraudulent transaction activity. Further, successful cyber-attacks at other large financial institutions or other market participants, whether or not we are impacted, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general which could result in reduced use of our financial products. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

Our Exposure To Potential Data Protection and Privacy Incidents, And Our Required Compliance With Regulations Related To These Areas, May Increase Our Costs, Reduce Our Revenue And Limit Our Ability To Pursue Business Opportunities.

If our information systems or infrastructure or those of our customers, partners, service providers or other market participants experience a significant disruption or breach, it could lead, depending on the nature of the disruption or breach, to the unauthorized access to and release, gathering, monitoring, misuse, loss or destruction of personal or confidential data about our customers, employees or other third parties in our possession. Any party that obtains this personal or confidential data through a breach or disruption may use this information for ransom, to be paid by us or a third-party, as part of a fraudulent activity that is part of a broader criminal activity, or for other illicit purposes. Further, such disruption or breach could also result in unauthorized access to our proprietary information, intellectual property, software, methodologies and business secrets and in unauthorized transactions in Capital One accounts or unauthorized access to personal or confidential information maintained by those entities. For example, there has been a significant proliferation of consumer information available on the Internet resulting from breaches of third-party entities, including personal information, log-in credentials and authentication data. While Capital One was not directly involved in these third-party breach events, the stolen information can create a vulnerability for our customers if their Capital One log-in credentials are the same as or similar to the credentials that have been compromised on other sites. This vulnerability could include the risk of unauthorized account access, data loss and fraud. The use of automation software, or "bots," can increase the velocity and efficacy of these types of attacks. A data protection incident, or media reports of perceived security vulnerabilities at Capital One or at third-party service providers, could result in significant legal and financial exposure, regulatory intervention, remediation costs, card reissuance, supervisory liability, damage to our reputation or loss of confidence in the security of our systems, products and services that could adversely affect our business.

We regularly move data across national borders to conduct our operations, and consequently are subject to a variety of continuously evolving and developing laws and regulations in the United States and abroad regarding privacy, data protection, and data security, including those related to the collection, storage, handling, use, disclosure, transfer, and security of personal data. Significant uncertainty exists as privacy and data protection laws may be interpreted and applied differently from country to country and may create inconsistent or conflicting requirements. For example, the GDPR, which becomes effective in May 2018, extends the scope of the EU data protection law to all companies processing data of EU residents, regardless of the company's location. The law requires companies to meet new requirements regarding the handling of personal data, including new rights such as the "portability" of personal data. Our efforts to comply with GDPR and other privacy and data protection laws may entail substantial expenses, may divert resources from other initiatives and projects, and could limit the services we are able to offer. Furthermore, enforcement actions and investigations by regulatory authorities related to data security incidents and privacy violations continue to increase. The enactment of more restrictive laws, rules, regulations, or future enforcement actions or investigations could impact us through increased costs or restrictions on our business, and noncompliance could result in regulatory penalties and significant legal liability.

Legal Risk

Our Businesses Are Subject To The Risk Of Increased Litigation, Government Investigations And Regulatory Enforcement.

Our businesses are subject to increased litigation, government investigations and other regulatory enforcement risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry, the structure of the credit card industry and business practices in the mortgage business. Given the inherent uncertainties involved in litigation, government investigations and regulatory enforcement decisions, and the very large or indeterminate damages sought in some matters asserted against us, there can be significant uncertainty as to the ultimate liability we may incur from these kinds of matters. The finding, or even the assertion, of substantial legal liability against us could have a material adverse effect on our business and financial condition and could cause significant reputational harm to us, which could seriously harm our business.

In addition, financial institutions, including us, have faced significant regulatory scrutiny over the past several years, which has increasingly led to public enforcement actions. We and our subsidiaries are subject to comprehensive regulation and periodic examination by the Federal Reserve, the SEC, OCC, FDIC and CFPB. We have been subject to enforcement actions by many of these and other regulators and may continue to be involved in such actions, including governmental inquiries, investigations and enforcement proceedings, including by the Department of Justice and state Attorneys General. We expect that regulators and governmental enforcement bodies will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings, which could involve restrictions on our activities, among other limitations that could adversely affect our business. In addition, a violation of law or regulation by another financial institution is likely to give rise to an investigation by regulators and other governmental agencies of the same or similar practices by us. For example, various regulatory and governmental agencies initiated an industry-wide supervisory initiative regarding sales practices and sales incentive compensation structures following a public enforcement action at another financial institution. In addition, a single event may give rise to numerous and overlapping investigations and proceedings. These and other initiatives from governmental authorities and officials may subject us to further judgments, settlements, fines or penalties, or cause us to restructure our operations and activities or to cease offering certain products or services, all of which could harm our reputation or lead to higher operational costs. Litigation, government investigations and other regulatory actions could involve restrictions on our activities, generally subject us to significant fines, increased expenses, restrictions on our activities and damage to our reputation and our brand, and could adversely affect our business, financial condition and results of operations.

Other Business Risks

We Face Intense Competition In All Of Our Markets.

We operate in a highly competitive environment, whether in making loans, attracting deposits or in the global payments industry, and we expect competitive conditions to continue to intensify with respect to most of our products. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality and range of our customer service, products, innovation and experience. This increasingly competitive environment is primarily a result of changes in technology, product delivery systems and regulation, as well as the emergence of new or significantly larger financial service providers, all of which may affect our customers' expectations and demands.

Some of our competitors, including new and emerging competitors in the digital and mobile payments space and other financial technology providers, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage, in particular in the development of new technology platforms or the ability to rapidly innovate. We compete with many forms of payments offered by both bank and non-bank providers, including a variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web-based and wireless payment platforms or technologies, digital currencies, prepaid systems and payment services targeting users of social networks and online gaming (including, for example, those offering payment through mobile phone accounts). If we are unable to continue to keep pace with innovation, our business and results of operations could be adversely affected.

Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. Many of our competitors are also focusing on cross-selling their products and developing new products or technologies, which could affect our ability to maintain or grow existing customer relationships or require us to offer lower interest rates or fees on our lending products or higher interest rates on deposits. Price competition for loans might result in origination of fewer loans or earning less on our loans.

As of December 31, 2017, we operate the largest online direct bank in the U.S. by deposits. While direct banking represents a significant opportunity to attract new customers that value greater and more flexible access to banking services at reduced costs, we face strong competition in the direct banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. In addition, the effects of a competitive environment may be exacerbated by the flexibility of direct banking and the increasing financial and technological sophistication of our customer base. Customers could also close their online accounts or reduce balances or deposits in favor of products and services offered by competitors for other reasons. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation.

In our credit card business, competition for rewards customers may result in higher rewards expenses, or we may fail to attract new customers or retain existing rewards customers due to increasing competition for these consumers. We have expanded our credit card partnership business over the past several years with the additions of a number of credit card partnerships. The market for key business partners, especially in the credit card business, is very competitive, and we may not be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense into acquiring and developing the relationships. The loss of any of our key business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

Some of our competitors have developed, or may develop, substantially greater financial and other resources than we have, may offer richer value propositions or a wider range of programs and services than we offer or may use more effective advertising, marketing or cross-selling strategies to acquire and retain more customers, capture a greater share of spending and borrowings, attain and develop more attractive cobrand card programs and maintain greater merchant acceptance than we have. We may not be able to compete effectively against these threats or respond or adapt to changes in consumer spending habits as effectively as our competitors.

In such a competitive environment, we may lose entire accounts or may lose account balances to competing firms, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, unexpected customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain deposits, may increase our expenses and therefore reduce our earnings.

Our Business, Financial Condition And Results Of Operations May Be Adversely Affected By Merchants' Increasing Focus On The Fees Charged By Credit Card Networks And By Regulation And Legislation Impacting Such Fees.

Credit card interchange fees are generally one of the largest components of the costs that merchants pay in connection with the acceptance of credit cards and are a meaningful source of revenue for our credit card businesses. Interchange fees are the subject of significant and intense global legal, regulatory and legislative focus, and the resulting decisions, regulations and legislation may have a material adverse impact on our overall business, financial condition and results of operations.

Regulators and legislative bodies in a number of countries are seeking to reduce credit card interchange fees through legislation, competition-related regulatory proceedings, central bank regulation and or litigation. Interchange reimbursement rates in the United States are set by credit card networks such as MasterCard and Visa. In some jurisdictions, such as Canada and certain countries in the European Union, interchange fees and related practices are subject to regulatory activity that have limited the ability of certain networks to establish default rates, including in some cases imposing caps on permissible interchange fees. We have already experienced these impacts in our international credit card portfolio. Legislators and regulators around the world are aware of each other's approaches to the regulation of the payments industry. Consequently, a development in one country, state or region may influence

regulatory approaches in another, such as our primary market, the United States.
In addition to this regulatory activity, merchants are also seeking avenues to reduce interchange fees. During the past few years, merchants and their trade groups have filed numerous lawsuits against Visa, MasterCard, American Express and their card-issuing banks, claiming that their practices toward merchants, including interchange and similar fees, violate federal antitrust laws. In 2005, a number of entities filed antitrust lawsuits against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. In December 2013, the U.S.

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District Court for the Eastern District of New York granted final approval of the proposed class settlement. The settlement provided, among other things, that merchants would be entitled to join together to negotiate lower interchange fees. The settlement was appealed to the Second Circuit Court of Appeals, which rejected the settlement in June 2016; this litigation remains ongoing. See "Note 19—Commitments, Contingencies, Guarantees and Others" for further details.

Some major retailers may have sufficient bargaining power to independently negotiate lower interchange fees with MasterCard and Visa, which could, in turn, result in lower interchange fees for us when our cardholders undertake purchase transactions with these retailers. In 2016, some of the largest merchants individually negotiated lower interchange rates with MasterCard and/or Visa. These and other merchants also continue to lobby aggressively for caps and restrictions on interchange fees and there can be no assurance that their efforts will not be successful or that they will not in the future bring legal proceedings against us or other credit card and debit card issuers and networks.

Beyond pursuing litigation, legislation and regulation, merchants may also promote forms of payment with lower fees, such as ACH-based payments, or seek to impose surcharges at the point of sale for use of credit or debit cards. New payment systems, particularly mobile-based payment technologies, could also gain widespread adoption and lead to issuer transaction fees or the displacement of credit card accounts as a payment method.

The heightened focus by merchants and regulatory and legislative bodies on the fees charged by credit and debit card networks, and the ability of certain merchants to successfully negotiate discounts to interchange fees with MasterCard and Visa or develop alternative payment systems could result in a reduction of interchange fees. Any resulting loss in income to us could have a material adverse effect on our business, financial condition and results of operations.

If We Are Not Able To Invest Successfully In And Introduce Digital And Other Technological Developments Across All Our Businesses, Our Financial Performance May Suffer.

Our industry is subject to rapid and significant technological changes and our ability to meet our customers' needs and expectations is key to our ability to grow revenue and earnings. We expect digital technologies to have a significant impact on banking over time. Consumers increasingly expect robust digital experiences from their financial services providers. The ability for customers to access their accounts and conduct financial transactions using digital technology, including mobile applications, is an increasingly important aspect of the financial services industry and it impacts our ability to deliver products and services to our customers. To that end, financial institutions are rapidly introducing new digital and other technology-driven products and services, which aim to offer a better customer experience and to reduce costs. We continue to invest in digital technology designed to attract new customers, facilitate the ability of existing customers to conduct financial transactions and enhance the customer experience related to our products and services.

Our continued success depends, in part, upon our ability to address the needs of our customers by using digital technology to provide products and services that efficiently meet their expectations in a cost-effective manner. The development and launch of new digital products and services depends in large part on our capacity to invest in and build the technology platforms that can enable them. We continue to actively invest in such technology platforms, however, we may fail to implement the correct technology, or may fail to do so in a timely manner as discussed in more detail above under the headings "We Face Intense Competition In All Of Our Markets" and "We Face Risks Related To Our Operational, Technological And Organizational Infrastructure."

Some of our competitors are substantially larger than we are, which may allow those competitors to invest more money into their technology infrastructure and digital innovation than we do. In addition, we face intense competition from smaller companies which experience lower cost structures and different regulatory requirements and scrutiny than we do, and which may allow them to innovate more rapidly than we can. See "We Face Intense Competition In All Of Our Markets." Further, our success depends on our ability to attract and retain strong digital and technology leaders, engineers and other talent, and competition for such talent is intense. If we are unable to attract and retain digital and technology talent, our ability to offer digital products and services and build the necessary technology infrastructure could be negatively affected, which could negatively impact our business and financial results. A failure to maintain or enhance our competitive position with respect to digital products and services, whether because we fail to anticipate customer expectations or because our technological developments fail to perform as desired or are not implemented in a timely or successful manner, could negatively impact our business and financial results.

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers, Acquisitions And Strategic Partnerships.
We have engaged in merger and acquisition activity and entered into strategic partnerships over the past several years and may continue to engage in such activity in the future. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other financial assets,

including credit card and other loan portfolios. There can be no assurance that we will be able to identify and secure future acquisition targets on terms and conditions that are acceptable to us, or successfully complete proposed mergers, acquisitions and strategic partnerships, which could impair our growth.

Any merger, acquisition or strategic partnership we undertake entails certain risks, which may materially and adversely affect our results of operations. If we experience greater than anticipated costs to integrate acquired businesses into our existing operations, or are not able to achieve the anticipated benefits of any merger, acquisition or strategic partnership, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with partners, clients, customers, depositors and employees or to achieve the anticipated benefits of any merger, acquisition or strategic partnership. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

In addition, we may face the following risks in connection with any merger, acquisition or strategic partnership:

- New Businesses and Geographic or Other Markets: Our merger, acquisition or strategic partnership activity may involve our entry into new businesses and new geographic areas or other markets which present risks resulting from our relative inexperience in these new businesses or markets. These new businesses or markets may change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.
- Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets: We cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through acquisitions or strategic partnerships. In addition, we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.
- Accuracy of Assumptions: In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger, acquisition or strategic partnership that may be, or may prove to be, inaccurate, including as a result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition.
- Target-specific Risk: Assets and companies that we acquire, or companies that we enter into strategic partnerships with, will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed above, certain of our merger, acquisition or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.
- Conditions to Regulatory Approval: Certain acquisitions may not be consummated without obtaining approvals from one or more of our regulators. We cannot be certain when or if, or on what terms and conditions, any required regulatory approvals will be granted. Consequently, we might be required to sell portions of acquired assets as a condition to receiving regulatory approval or we may not obtain regulatory approval for a proposed acquisition on acceptable terms or at all, in which case we would not be able to complete the acquisition despite the time and expenses invested in pursuing it.

Reputational Risk And Social Factors May Impact Our Results And Damage Our Brand.

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business and compliance practices or our financial health. In addition, our brand has historically been, and we expect it to continue to be, very important to us. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high-quality products and services. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative public perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us or significantly increase

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the costs of attracting and retaining customers. In addition, negative perceptions regarding certain industries or clients could also prompt us to cease business activities associated with those industries or clients.

Negative public opinion or damage to our brand could also result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, security breaches (including the use and protection of customer information), corporate governance, and sales and marketing, and from actions taken by regulators or other persons in response to such conduct. Such conduct could fall short of our customers' and the public's heightened expectations of companies of our size with rigorous data, privacy and compliance practices, and could further harm our reputation. In addition, third parties with whom we have important relationships may take actions over which we have limited control that could negatively impact perceptions about us or the financial services industry. The proliferation of social media may increase the likelihood that negative public opinion from any of the events discussed above will impact our reputation and business.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by accountholders and borrowers domestically and internationally. These social factors include changes in consumer confidence levels, the public's perception regarding the banking industry and consumer debt, including credit card use, and changing attitudes about the stigma of bankruptcy. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline or if we fail to maintain and enhance our brand, or we incur significant expenses in this effort, our business and financial results could be materially and negatively affected.

If We Are Not Able To Protect Our Intellectual Property, Our Revenue And Profitability Could Be Negatively Affected.

We rely on a variety of measures to protect and enhance our intellectual property, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation and competition. We also undertake other measures to control access to and distribution of our other proprietary information. These measures may not prevent misappropriation of our proprietary information or infringement of our intellectual property rights and a resulting loss of competitive advantage. In addition, our competitors or other third parties may file patent applications for innovations that are used in our industry or allege that our systems, processes or technologies infringe on their intellectual property rights. If our competitors or other third parties are successful in obtaining such patents or prevail in intellectual property-related litigation against us, we could lose significant revenues, incur significant license, royalty or technology development expenses, or pay significant damages.

There Are Risks Resulting From The Extensive Use Of Models and Data In Our Business.

We rely on quantitative models, and our ability to manage data and our ability to aggregate data in an accurate and timely manner, to assess and manage our various risk exposures and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy and calculating economic and regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Our risk reporting and management, including business decisions based on information incorporating models, depend on the effectiveness of our models and our policies, programs, processes and practices governing how data is acquired, validated, stored, protected, processed and analyzed. Any issues with the quality or effectiveness of our data aggregation and validation procedures, as well as the quality and integrity of data inputs, could result in ineffective risk management practices or inaccurate risk reporting. For example, models based on historical data sets might not be accurate predictors of future outcomes and their ability to appropriately predict future outcomes may degrade over time. While we continuously update our policies, programs, processes and practices, many of our data management and aggregation processes are manual and subject to human error or system failure. Failure to manage data effectively and to aggregate data in an accurate and timely manner may limit our ability to manage current and emerging risk, to produce accurate financial, regulatory and operational reporting as well as to manage changing business needs. If our risk management framework proves ineffective, we could suffer unexpected losses which could materially adversely affect our results of operation or financial condition. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distribution to our shareholders, could be affected adversely due to the perception that the quality of the models used to generate the relevant information is insufficient.

Our Risk Management Strategies May Not Be Fully Effective In Mitigating Our Risk Exposures In All Market Environments Or Against All Types Of Risk.

Management of risk, including market, credit, liquidity, compliance and strategic risks, requires, among other things, policies and procedures to properly record and verify a large number of transactions and events. See “MD&A—Risk Management” for further details. We have devoted significant resources to developing our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our risk management strategies may not be fully effective in identifying and mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated, even if our models for assessing risk are properly designed and implemented.

Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. These methods may not accurately predict future exposures, which could be significantly greater than the historical measures indicate. For example, market conditions during the financial crisis involved unprecedented dislocations and highlight the limitations inherent in using historical information to manage risk. In addition, credit risk is inherent in the financial services business and results from, among other things, extending credit to customers. Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate).

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. For example, our ability to implement our risk management strategies may be hindered by adverse changes in the volatility or liquidity conditions in certain markets and as a result, may limit our ability to distribute such risks (for instance, when we seek to syndicate exposure in bridge financing transactions we have underwritten). We may, therefore, incur losses in the course of our risk management or investing activities.

Changes In Consumer Behavior And Their Adoption of Digital Technology May Change Retail Distribution Strategies And May Adversely Impact Our Investments In Our Bank Premises And Equipment And Other Retail Distribution Assets, Lead To Increased Expenditures And Expose Us To Additional Risk.

We have significant investments in bank premises and equipment for our branch network and other branch banking assets including our banking centers, parcels of land held for the development of future banking centers and our retail work force. Advances in technology such as digital and mobile banking, in-branch self-service technologies, proximity or remote payment technologies, as well as progressively changing customer preferences for these other methods of banking, could decrease the value of our branch network or other retail distribution assets. As a result, we may need to further change our retail distribution strategy and close, sell and/or renovate additional branches or parcels of land held for development and restructure or reduce our remaining branches and work force. These actions could lead to losses on these assets or could adversely impact the carrying value of other long-lived assets, reduce our revenues, increase our expenditures, dilute our brand and/or reduce customer demand for our products and services. Further, to the extent that we change our retail distribution strategy and as a result expand into new business areas, we may face more competitors with more experience in the new business areas and more established relationships with relevant customers, regulators and industry participants, which could adversely affect our ability to compete. Our competitors may also be subject to less burdensome regulations. See "We Face Intense Competition In All Our Markets."

Fluctuations In Market Interest Rates Or Volatility In The Capital Markets Could Adversely Affect Our Income And Expense, The Value Of Assets And Obligations, Our Regulatory Capital, Cost Of Capital Or Our Liquidity.

Like other financial institutions, our business may be sensitive to market interest rate movement and the performance of the capital markets. Disruptions, uncertainty or volatility across the capital markets could negatively impact market liquidity and limit our access to funding required to operate and grow our business. In addition, changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. The interest rates that we pay on the securities we have issued are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising London Interbank Offering Rate ("LIBOR") and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings.

In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for mortgage, auto and other term loans and may affect the balances customers carry on their credit cards. Although recent increases in interest rates may reduce prepayment risk, debt service requirements for some of our borrowers will increase, which may adversely affect those borrowers' ability to pay as contractually obligated. This could result in additional delinquencies or charge-offs and negatively impact our results of operations. These changes can reduce the overall yield on our earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. An inability to attract or maintain deposits could materially affect our ability to fund our business and our liquidity position. Many other financial institutions have increased their reliance on deposit funding and, as such, we expect continued competition in the deposit markets. We cannot predict how this competition will affect our costs. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted. Changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Such market changes could also have a negative impact on the valuation of assets for which we provide servicing. Finally, the Basel III Capital Rule requires that most amounts reported in Accumulated Other Comprehensive Income ("AOCI"), including unrealized gains and losses on securities designated as available for sale, be included in our regulatory capital calculations. Changes in interest rates or market valuations that result in unrealized losses on components of AOCI could therefore impact our regulatory capital ratios negatively.

As a result of recent regulatory and other legal proceedings, actions by regulators or law enforcement agencies may result in changes to the manner in which LIBOR is determined or the establishment of alternative reference rates for floating rate debt. Uncertainty as to the nature of potential changes, alternative reference rates or other reforms may adversely affect the trading market for LIBOR-based securities. In addition, any changes in the method pursuant to which LIBOR is determined may result in a sudden or prolonged increase or decrease in LIBOR. If that were to occur, the level of interest payments and the value of LIBOR-indexed debt may be affected. Uncertainty as to the extent and manner of future changes may adversely affect the current trading market for LIBOR based securities.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction and the magnitude of interest rate changes. We take risk mitigation actions based on those assessments. We face the risk that changes in interest rates could materially reduce our net interest income and our earnings, especially if actual conditions turn out to be materially different than those we assumed. See "MD&A—Market Risk Profile" for additional information.

Our Business Could Be Negatively Affected If We Are Unable To Attract, Retain And Motivate Skilled Senior Leaders.

Our success depends, in large part, on our ability to retain key senior leaders, and competition for such senior leaders is intense. The executive compensation provisions of the Dodd-Frank Act and the regulations issued thereunder, and any further legislation, regulation or regulatory guidance restricting executive compensation, may limit the types of compensation arrangements that we may enter into with our most senior leaders and could have a negative impact on our ability to attract, retain and motivate such leaders in support of our long-term strategy. These laws and regulations may not apply in the same manner to all financial institutions, and we therefore may face more restrictions than other institutions and companies with which we compete for talent. These laws and regulations may also hinder our ability to compete for talent with other industries. If we are unable to retain talented senior leadership, our business could be negatively affected.

We Face Risks From Unpredictable Catastrophic Events.

Despite the business contingency plans we have in place, there can be no assurance that such plans will fully mitigate all potential business continuity risks to us. The impact from natural disasters and other catastrophic events may have a negative effect on our business and infrastructure, including our information technology systems and those of third-parties that we rely on. Our ability to conduct business may be adversely affected by a disruption in the infrastructure that supports our business and the communities where we are located, which are concentrated in the Northern Virginia and New York metropolitan areas, as well as Richmond, Virginia and Plano, Texas. This may include a disruption involving physical site access, cyber incidents, terrorist activities, disease pandemics, catastrophic events, natural disasters, extreme weather events, electrical outage, environmental hazard, computer servers, communications or other services we use, our employees or third parties with whom we conduct business. In addition, if a natural disaster or other catastrophic event occurs in certain regions where our business and customers are concentrated, such as the mid-Atlantic, New York or Texas metropolitan areas, we could be disproportionately impacted as compared to our competitors. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

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We Face Risks From The Use Of Or Changes To Assumptions Or Estimates In Our Financial Statements.

Pursuant to generally accepted accounting principles in the U.S. ("U.S. GAAP"), we are required to use certain assumptions and estimates in preparing our financial statements, including determining our allowance for loan and lease losses, the fair value of certain assets and liabilities, and asset impairment, among other items. In December 2017, Congress passed and the President signed into law the Tax Act, that made significant changes to the U.S. federal tax laws. Many aspects of the new legislation are unclear and may not be clarified for some time. As a result, we have relied on reasonable estimates and provisional accounting entries in our accounting for income taxes. The ultimate impact of the Tax Act may differ from our estimates due to changes in the interpretations and assumptions, as well as additional regulatory guidance that may be issued. In addition, the FASB, the SEC and other regulatory bodies may change the financial accounting and reporting standards, including those related to assumptions and estimates we use to prepare our financial statements, in ways that we cannot predict and that could impact our financial statements. For example, in June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance, which becomes effective on January 1, 2020 with early adoption permitted no earlier than January 1, 2019, requires use of a CECL model that is based on expected rather than incurred losses. We are currently assessing the potential impact of this guidance, which may be material to our accounting for credit losses on financial instruments. If actual results differ from the assumptions or estimates underlying our financial statements or if financial accounting and reporting standards are changed, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our consolidated financial statements, see "MD&A—Critical Accounting Policies and Estimates" and "Note 1—Summary of Significant Accounting Policies."

Limitations On Our Ability To Receive Dividends From Our Subsidiaries Could Affect Our Liquidity And Ability To Pay Dividends And Repurchase Common Stock.

We are a separate and distinct legal entity from our subsidiaries, including the Banks. Dividends to us from our direct and indirect subsidiaries, including the Banks, have represented a major source of funds for us to pay dividends on our common and preferred stock, repurchase common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common or preferred stockholders, repurchase our common stock, make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

The Soundness Of Other Financial Institutions And Other Third Parties Could Adversely Affect Us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. We have exposure to an increasing number of financial institutions and counterparties. These counterparties include institutions that may be exposed to various risks over which we have little or no control, including European or U.S. sovereign debt that is currently or may become in the future subject to significant price pressure, rating agency downgrade or default risk.

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

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Item 1B. Unresolved Staff Comments

None.

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Item 2. Properties

Our corporate and banking real estate portfolio consists of approximately 14.7 million square feet of owned or leased office and retail space, used to support our business. Of this overall portfolio, approximately 11.2 million square feet of space is dedicated for various corporate office uses and approximately 3.5 million square feet of space is for bank branches and related offices.

Our 11.2 million square feet of corporate office space consists of approximately 6.4 million square feet of leased space and 4.8 million square feet of owned space. Our headquarters is located in McLean, Virginia, and is included in our corporate office space. We maintain corporate office space primarily in Virginia, Illinois, Texas, New York, Delaware, Louisiana and Maryland.

Our 3.5 million square feet of bank branch, Café and office space consists of approximately 1.9 million square feet of leased space and 1.6 million square feet of owned space, including branch locations primarily across New York, Louisiana, Texas, Maryland, Virginia, New Jersey and the District of Columbia. See “Note 8—Premises, Equipment and Lease Commitments” for information about our premises.

Item 3. Legal Proceedings

The information required by Item 103 of Regulation S-K is included in “Note 19—Commitments, Contingencies, Guarantees and Others.”

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 31, 2018, there were 10,982 holders of record of our common stock. The table below presents the high and low closing trade prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

	Trade Price		Cash
For the Quarter Ended	High	Low	Dividends
December 31, 2017	$100.50	$84.59	$ 0.40
September 30, 2017	87.94	78.21	0.40
June 30, 2017	85.80	76.92	0.40
March 31, 2017	96.12	82.13	0.40
December 31, 2016	90.62	71.07	0.40
September 30, 2016	72.50	60.86	0.40
June 30, 2016	75.96	58.15	0.40
March 31, 2016	71.03	58.66	0.40

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under "Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfers of Funds," "MD&A—Capital Management—Dividend Policy and Stock Purchases" and "Note 12—Regulatory and Capital Adequacy."

Securities Authorized for Issuance Under Equity Compensation Plans

Information relating to compensation plans under which our equity securities are authorized for issuance is presented in this Report under "Part III—Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared to an overall stock market index, the S&P Composite 500 Stock Index ("S&P 500 Index"), and a published industry index, the S&P Financial Composite Index ("S&P Financial Index"), over the five-year period commencing December 31, 2012 and ending December 31, 2017. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

	December 31,					
	2012	2013	2014	2015	2016	2017
Capital One	$100.00	$134.18	$146.88	$130.86	$161.94	$188.35
S&P 500 Index	100.00	129.60	144.36	143.31	156.98	187.47
S&P Financial Index	100.00	133.21	150.66	145.42	174.71	209.70

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Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2017.

Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock for each calendar month in the fourth quarter of 2017. During this period, there were no repurchases of common stock under the 2017 Stock Repurchase Program. Commission costs are excluded from the amounts presented below.

	Number of Shares Purchased[1]	Average Price Paid per Share	Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program (in millions)
October	—	—	—	$ 1,834
November	35,254	$ 92.10	—	1,834
December[2]	—	—	—	1,000
Total	35,254	$ 92.10	—	

(1) Shares withheld in November 2017 were to cover taxes on restricted stock awards whose restrictions have lapsed.

(2) In December 2017, the Board of Directors reduced the authorized repurchases of our common stock to up to $1.0 billion for the remaining 2017 CCAR period, which ends June 30, 2018.

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Item 6. Summary of Selected Financial Data

The following table presents selected consolidated financial data and performance metrics for the five-year period ended December 31, 2017. Certain prior period amounts have been recast to conform to the current period presentation. We prepare our consolidated financial statements based on U.S. GAAP. This data should be reviewed in conjunction with our audited consolidated financial statements and related notes and with the MD&A included in this Report. The historical financial information presented may not be indicative of our future performance.

Five-Year Summary of Selected Financial Data

(Dollars in millions, except per share data and as noted)	Year Ended December 31, 2017	2016	2015	2014	2013	Change 2017 vs. 2016	Change 2016 vs. 2015
Income statement							
Interest income	$25,222	$22,891	$20,459	$19,397	$19,898	10 %	12 %
Interest expense	2,762	2,018	1,625	1,579	1,792	37	24
Net interest income	22,460	20,873	18,834	17,818	18,106	8	11
Non-interest income	4,777	4,628	4,579	4,472	4,278	3	1
Total net revenue	27,237	25,501	23,413	22,290	22,384	7	9
Provision for credit losses	7,551	6,459	4,536	3,541	3,453	17	42
Non-interest expense:							
Marketing	1,670	1,811	1,744	1,561	1,373	(8)	4
Operating expenses	12,524	11,747	11,252	10,619	10,980	7	4
Total non-interest expense	14,194	13,558	12,996	12,180	12,353	5	4
Income from continuing operations before income taxes	5,492	5,484	5,881	6,569	6,578	—	(7)
Income tax provision	3,375	1,714	1,869	2,146	2,224	97	(8)
Income from continuing operations, net of tax	2,117	3,770	4,012	4,423	4,354	(44)	(6)
Income (loss) from discontinued operations, net of tax	(135)	(19)	38	5	(233)	**	**
Net income	1,982	3,751	4,050	4,428	4,121	(47)	(7)
Dividends and undistributed earnings allocated to participating securities	(13)	(24)	(20)	(18)	(17)	(46)	20
Preferred stock dividends	(265)	(214)	(158)	(67)	(53)	24	35
Net income available to common stockholders	$1,704	$3,513	$3,872	$4,343	$4,051	(51)	(9)
Common share statistics							
Basic earnings per common share:							
Net income from continuing operations	$3.80	$7.00	$7.08	$7.70	$7.39	(46)%	(1)%
Income (loss) from discontinued operations	(0.28)	(0.04)	0.07	0.01	(0.40)	**	**
Net income per basic common share	$3.52	$6.96	$7.15	$7.71	$6.99	(49)	(3)
Diluted earnings per common share:							
Net income from continuing operations	$3.76	$6.93	$7.00	$7.58	$7.28	(46)	(1)
Income (loss) from discontinued operations	(0.27)	(0.04)	0.07	0.01	(0.39)	**	**
Net income per diluted common share	$3.49	$6.89	$7.07	$7.59	$6.89	(49)	(3)
Common shares outstanding (period-end, in millions)	485.5	480.2	527.3	553.4	572.7	1	(9)
Dividends declared per common share	$1.60	$1.60	$1.50	$1.20	$0.95	—	7

Tangible book value per common share (period-end)[1]	60.28	57.76	53.65	50.32	43.64	4	8
Common dividend payout ratio[2]	45.45 %	22.99 %	20.98 %	15.56 %	13.59 %	22	2
Stock price per common share at period end	$99.58	$87.24	$72.18	$82.55	$76.61	14	21
Book value per common share at period end	100.37	98.95	89.67	81.41	72.69	1	10
Total market capitalization at period end	48,346	41,893	38,061	45,683	43,875	15	10
Balance sheet (average balances)							
Loans held for investment	$245,565	$233,272	$210,745	$197,925	$192,614	5 %	11 %
Interest-earning assets	322,330	307,796	282,581	267,174	266,423	5	9
Total assets	354,924	339,974	313,474	297,659	296,200	4	8
Interest-bearing deposits	213,949	198,304	185,677	181,036	187,700	8	7
Total deposits	239,882	223,714	210,989	205,675	209,045	7	6
Borrowings	53,659	56,878	45,420	38,882	37,807	(6)	25
Common equity	45,170	45,162	45,072	43,055	40,629	—	—
Total stockholders' equity	49,530	48,753	47,713	44,268	41,482	2	2

(Dollars in millions, except per share data and as noted)	Year Ended December 31, 2017	2016	2015	2014	2013	Change 2017 vs. 2016	2016 vs. 2015
Selected performance metrics							
Purchase volume[3]	$336,440	$307,138	$271,167	$224,750	$201,074	10 %	13 %
Total net revenue margin[4]	8.45 %	8.29 %	8.29 %	8.34 %	8.40 %	16 bps	—
Net interest margin[5]	6.97	6.78	6.66	6.67	6.80	19	12 bps
Return on average assets	0.60	1.11	1.28	1.49	1.47	(51)	(17)
Return on average tangible assets[6]	0.62	1.16	1.35	1.57	1.55	(54)	(19)
Return on average common equity[7]	4.07	7.82	8.51	10.08	10.54	(4)%	(1)%
Return on average tangible common equity (“TCE”)[8]	6.16	11.93	12.87	15.79	17.35	(6)	(1)
Equity-to-assets ratio[9]	13.96	14.34	15.22	14.87	14.00	(38)bps	(88)bps
Non-interest expense as a percentage of average loans held for investment	5.78	5.81	6.17	6.15	6.41	(3)	(36)
Efficiency ratio[10]	52.11	53.17	55.51	54.64	55.19	(106)	(234)
Effective income tax rate from continuing operations	61.5	31.3	31.8	32.7	33.8	30 %	(1)%
Net charge-offs	$6,562	$5,062	$3,695	$3,414	$3,934	30	37
Net charge-off rate[11]	2.67 %	2.17 %	1.75 %	1.72 %	2.04 %	50 bps	42 bps

(Dollars in millions, except as noted)	December 31, 2017	2016	2015	2014	2013	Change 2017 vs. 2016	2016 vs. 2015
Balance sheet (period-end)							
Loans held for investment	$254,473	$245,586	$229,851	$208,316	$197,199	4 %	7 %
Interest-earning assets	334,124	321,807	302,007	277,849	265,170	4	7
Total assets	365,693	357,033	334,048	308,167	296,064	2	7
Interest-bearing deposits	217,298	211,266	191,874	180,467	181,880	3	10
Total deposits	243,702	236,768	217,721	205,548	204,523	3	9
Borrowings	60,281	60,460	59,115	48,457	40,654	—	2
Common equity	44,370	43,154	43,990	43,231	40,779	3	(2)
Total stockholders’ equity	48,730	47,514	47,284	45,053	41,632	3	—
Credit quality metrics							
Allowance for loan and lease losses	$7,502	$6,503	$5,130	$4,383	$4,315	15 %	27 %
Allowance as a percentage of loans held for investment (“allowance coverage ratio”)	2.95 %	2.65 %	2.23 %	2.10 %	2.19 %	30 bps	42 bps
30+ day performing delinquency rate	3.23	2.93	2.69	2.62	2.63	30	24
30+ day delinquency rate	3.48	3.27	3.00	2.91	2.96	21	27
Capital ratios							
Common equity Tier 1 capital[12]	10.3 %	10.1 %	11.1 %	12.5 %	N/A	20 bps	(100)bps
Tier 1 common ratio	N/A	N/A	N/A	N/A	12.2 %	**	**
Tier 1 capital[12]	11.8	11.6	12.4	13.2	12.6	20	(80)

Total capital[12]	14.4	14.3	14.6	15.1	14.7	10	(30)
Tier 1 leverage[12]	9.9	9.9	10.6	10.8	10.1	—	(70)
Tangible common equity[13]	8.3	8.1	8.9	9.5	8.9	20	(80)
Supplementary leverage[12]	8.4	8.6	9.2	N/A	N/A	(20)	(60)
Other							
Employees (period end, in thousands)	49.3	47.3	45.4	46.0	45.4	4 %	4 %

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

(2) Common dividend payout ratio is calculated based on dividends per common share for the period divided by basic earnings per common share for the period.

(3) Purchase volume consists of purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale in our Credit Card business, and excludes cash advance and balance transfer transactions.

(4) Total net revenue margin is calculated based on total net revenue for the period divided by average interest-earning assets for the period.

(5) Net interest margin is calculated based on net interest income for the period divided by average interest-earning assets for the period.

(6) Return on average tangible assets is a non-GAAP measure calculated based on income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See “MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.

(7) Return on average common equity is calculated based on (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.

(8) Return on average tangible common equity is a non-GAAP measure calculated based on (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 F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.

(9) Equity-to-assets ratio is calculated based on average stockholders’ equity for the period divided by average total assets for the period.

(10) Efficiency ratio is calculated based on non-interest expense for the period divided by total net revenue for the period.

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

(12) Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital measures under Basel I. See “MD&A—Capital Management” and “MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information, including the calculation of each of these ratios.

(13) Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets. See “MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for the calculation of this measure and reconciliation to the comparative U.S. GAAP measure.

** Change is not meaningful.

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Item 7. 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 "Part I—Item 1. Business—Forward-Looking Statements" for more information on the forward-looking statements in this 2017 Annual Report on Form 10-K ("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 I—Item 1A. Risk Factors" in this Report. Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our consolidated financial statements as of December 31, 2017 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements as of and for the year ended December 31, 2017 and accompanying notes. MD&A is organized in the following sections:

- Executive Summary and Business Outlook
- Consolidated Results of Operations
- Consolidated Balance Sheets Analysis
- Off-Balance Sheet Arrangements
- Business Segment Financial Performance
- Critical Accounting Policies and Estimates
- Accounting Changes and Developments
- Capital Management
- Risk Management
- Credit Risk Profile
- Liquidity Risk Profile
- Market Risk Profile
- Supplemental Tables
- Glossary and Acronyms

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

Financial Highlights

We reported net income of $2.0 billion ($3.49 per diluted common share) on total net revenue of $27.2 billion for 2017. In comparison, we reported net income of $3.8 billion ($6.89 per diluted common share) on total net revenue of $25.5 billion for 2016, and $4.1 billion ($7.07 per diluted common share) on total net revenue of $23.4 billion for 2015.

Our net income of $2.0 billion for 2017 includes charges totaling $1.8 billion related to the enactment of the Tax Act in the fourth quarter of 2017. See "MD&A—Income Taxes" below for additional information.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach, including transition provisions, was 10.3% and 10.1% as of December 31, 2017 and 2016, respectively. See "MD&A—Capital Management" below for additional information.

On June 28, 2017, we announced that our Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018. In December 2017, the Board of Directors reduced the authorized repurchases of our common stock to up to $1.0 billion for the remaining 2017 CCAR period, which ends June 30, 2018 ("2017 Stock Repurchase Program"). See "MD&A—Capital Management—Dividend Policy and Stock Purchases" for additional information.

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

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Total Company Performance

- Earnings: Our net income decreased by $1.8 billion to $2.0 billion in 2017 compared to 2016. The decrease was primarily driven by:
  - higher income tax provision due to charges associated with the estimated impacts of the Tax Act;
  - higher provision for credit losses primarily driven by higher charge-offs in our domestic credit card loan portfolio;
  - higher operating expenses as a result of (i) loan growth; (ii) continued investments in technology and infrastructure; and (iii) restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations; and
  - higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities.

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

- Loans Held for Investment:
  - Period-end loans held for investment increased by $8.9 billion to $254.5 billion as of December 31, 2017 from December 31, 2016 primarily due to growth in our domestic credit card loan portfolio, largely driven by loans obtained in the Cabela's acquisition, as well as growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.
  - Average loans held for investment increased by $12.3 billion to $245.6 billion in 2017 compared to 2016 primarily driven by growth in our auto, domestic credit card and commercial loan portfolios, partially offset by run-off of our acquired home loan portfolio.

- Net Charge-Off and Delinquency Metrics: Our net charge-off rate increased by 50 basis points to 2.67% in 2017 compared to 2016 primarily due to growth and seasoning of recent domestic credit card loan originations.

Our 30+ day delinquency rate increased by 21 basis points to 3.48% as of December 31, 2017 from December 31, 2016 primarily due to:
  - higher auto delinquency inventories; and
  - growth and seasoning of recent domestic credit card loan originations.

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

- Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by $999 million to $7.5 billion as of December 31, 2017 from December 31, 2016, and the allowance coverage ratio increased by 30 basis points to 2.95% as of December 31, 2017 from December 31, 2016. The increases were primarily driven by:
  - an allowance build in our domestic credit card loan portfolio primarily due to increasing losses from recent vintages and portfolio seasoning; and
  - an allowance build in our auto loan portfolio due to higher losses associated with growth.

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

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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 II—Item 7. MD&A" of this Report. 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:

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

See "Part I—Item 1. Business—Forward-Looking Statements" in this Report for more information on the forward-looking statements included in this Report and "Part I—Item 1A. Risk Factors" in this Report for factors that could materially influence our results.

Total Company Expectations

We expect that our current trajectory, coupled with the Tax Act, will enable us to accelerate 2018 earnings per share growth, excluding adjusting items and assuming no substantial change in the broader economic or credit cycles.

We expect that a majority of the benefit from the Tax Act will be reflected in our earnings in the near term. Over time, we expect that marketplace dynamics will consume a portion of the benefit through increasing competition, including higher levels of marketing, lower prices and higher wages, and we expect that these market effects will increase over time.

We expect our annual effective income tax rate to be around 19% in 2018, plus or minus a reasonable margin of volatility.

We expect that marketing expense in 2018 will be higher than 2017.

While our efficiency ratio may vary in any given year, over the long term, we believe that we will be able to achieve gradual improvement in our efficiency ratio driven by growth and digital productivity gains.

We believe that our common equity Tier 1 capital ratio on a fully phased-in basis will trend toward the mid-10% range by the end of 2018.

On June 28, 2017, we announced that our Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018 as part of the 2017 Stock Repurchase Program. In December 2017, the Board of Directors reduced the authorized repurchases of our common stock to up to $1.0 billion for the remaining 2017 CCAR period, which ends June 30, 2018. The timing and exact amount of any common stock repurchases will depend on various factors, including regulatory approval, market conditions, opportunities for growth, our capital position, the amount of retained earnings and utilizing Rule 10b5-1 programs, and may be suspended at any time. See "MD&A—Capital Management—Dividend Policy and Stock Purchases" for more information.

We continue to be in a strong position to deliver attractive growth and returns, as well as significant capital distribution, subject to regulatory approval and market conditions.

Business Segment Expectations

Credit Card: In our Domestic Card business, we expect that the upward pressure on charge-offs as new loans season and become a larger portion of our overall portfolio will continue to moderate, with a small impact in 2018. As the impact of new loan seasoning moderates, we expect that our delinquency and charge-off rate trends will be driven more by broader industry factors.

Consumer Banking: In our Consumer Banking business, we expect that the charge-off rate in our auto finance business will increase gradually and the growth we have experienced in that business will moderate.

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CONSOLIDATED RESULTS OF OPERATIONS

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

Net Interest Income

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

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Table 1 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balance, interest income earned or interest expense incurred, and average yield for 2017, 2016 and 2015.

Table 1: Average Balances, Net Interest Income and Net Interest Margin

	Year Ended December 31,								
	2017			2016			2015		
(Dollars in millions)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense[(2)(3)]	Average Yield/ Rate
Assets:									
Interest-earning assets:									
Loans:[(1)]									
Credit card	$103,468	$15,735	15.21 %	$96,596	$14,173	14.67 %	$86,923	$ 12,387	14.25 %
Consumer banking	74,865	4,984	6.66	71,631	4,537	6.33	71,365	4,460	6.25
Commercial banking[(2)]	68,150	2,630	3.86	66,033	2,290	3.47	53,161	1,710	3.22
Other[(2)(3)]	130	39	30.00	78	203	260.26	100	228	228.00
Total loans, including loans held for sale	246,613	23,388	9.48	234,338	21,203	9.05	211,549	18,785	8.88
Investment securities	68,896	1,711	2.48	66,260	1,599	2.41	63,738	1,575	2.47
Cash equivalents and other interest-earning assets	6,821	123	1.80	7,198	89	1.24	7,294	99	1.36
Total interest-earning assets	322,330	25,222	7.82	307,796	22,891	7.44	282,581	20,459	7.24
Cash and due from banks	3,457			3,235			2,970		
Allowance for loan and lease losses	(7,025)			(5,675)			(4,582)		
Premises and equipment, net	3,931			3,671			3,701		
Other assets	32,231			30,947			28,804		
Total assets	$354,924			$339,974			$313,474		
Liabilities and stockholders' equity:									
Interest-bearing liabilities:[(3)]									
Deposits	$213,949	$1,602	0.75 %	$198,304	$1,213	0.61 %	$185,677	$ 1,091	0.59 %
Securitized debt obligations	18,237	327	1.79	16,576	216	1.30	13,929	151	1.08
Senior and subordinated notes	27,866	731	2.62	22,417	476	2.12	20,935	330	1.58
Other borrowings and liabilities	8,917	102	1.14	18,736	113	0.60	11,297	53	0.47
Total interest-bearing liabilities	268,969	2,762	1.03	$256,033	2,018	0.79	$231,838	1,625	0.70
Non-interest-bearing deposits	25,933			25,410			25,312		
Other liabilities	10,492			9,778			8,611		
Total liabilities	305,394			291,221			265,761		

Stockholders' equity	49,530				48,753				47,713		
Total liabilities and stockholders' equity	$354,924				$339,974				$313,474		
Net interest income/spread		$22,460	6.79			$20,873	6.65			$ 18,834	6.54	
Impact of non-interest-bearing funding			0.18				0.13				0.12	
Net interest margin			6.97	%			6.78	%			6.66	%

(1) Past due fees included in interest income totaled approximately $1.6 billion, $1.5 billion and $1.4 billion in 2017, 2016 and 2015, respectively.

(2) Some of our commercial loans generate tax-exempt income. Accordingly, we make certain reclassifications to present interest income and yields from our Commercial Banking business on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory rate (35% for all periods presented), with offsetting reductions to the Other category. Taxable-equivalent adjustments included in the interest income and yield computations for our Commercial banking loans totaled approximately $129 million, $126 million and $102 million in 2017, 2016 and 2015, respectively, with corresponding reductions to Other.

(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.

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Net interest income increased by $1.6 billion to $22.5 billion in 2017 compared to 2016. Net interest margin increased by 19 basis points to 6.97% in 2017 compared to 2016. These increases were primarily driven by:

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

These drivers were partially offset by higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities.

Net interest income increased by $2.0 billion to $20.9 billion in 2016 compared to 2015 primarily driven by:

- growth in our credit card and commercial loan portfolios, including loans acquired from the HFS acquisition; and
- higher yields as a result of higher interest rates.

Net interest margin increased by 12 basis points to 6.78% in 2016 compared to 2015 primarily driven by:

- continued growth in our credit card loan portfolio; and
- continued run-off of our acquired home loan portfolio.

This increase was partially offset by:

- the impact of loans acquired from the HFS acquisition, which generally have lower net interest margins compared to our total company portfolio; and
- margin compression in our auto loan portfolio.

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Table 2 displays the change in our net interest income between periods and the extent to which the variance is attributable to:

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

Table 2: Rate/Volume Analysis of Net Interest Income[1]

	2017 vs. 2016			2016 vs. 2015		
(Dollars in millions)	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	$1,562	$1,031	$531	$1,786	$1,410	$376
Consumer banking	447	210	237	77	17	60
Commercial banking[2]	340	75	265	580	437	143
Other[2]	(164)	16	(180)	(25)	(50)	25
Total loans, including loans held for sale	2,185	1,332	853	2,418	1,814	604
Investment securities	112	65	47	24	61	(37)
Cash equivalents and other interest-earning assets	34	(5)	39	(10)	(1)	(9)
Total interest income	2,331	1,392	939	2,432	1,874	558
Interest expense:						
Deposits	389	101	288	122	76	46
Securitized debt obligations	111	23	88	65	31	34
Senior and subordinated notes	255	128	127	146	25	121
Other borrowings and liabilities	(11)	(59)	48	60	41	19
Total interest expense	744	193	551	393	173	220
Net interest income	$1,587	$1,199	$388	$2,039	$1,701	$338

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

(2) Some of our commercial loans generate tax-exempt income. Accordingly, we make certain reclassifications to present interest income and yields from our Commercial Banking business on a taxable-equivalent basis, calculated assuming an effective tax rate approximately equal to our federal statutory rate (35% for all periods presented), with offsetting reductions to the Other category.

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Non-Interest Income

Table 3 displays the components of non-interest income for 2017, 2016 and 2015. Certain prior period amounts have been recast to conform to the current period presentation.

Table 3: Non-Interest Income

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Interchange fees, net	$2,573	$2,452	$2,264
Service charges and other customer-related fees	1,597	1,646	1,856
Net securities gains (losses)	65	(11)	(32)
Other non-interest income:			
Mortgage banking revenue	201	166	147
Treasury and other investment income	126	83	107
Other	215	292	237
Total other non-interest income	542	541	491
Total non-interest income	$4,777	$4,628	$4,579

Non-interest income increased by $149 million to $4.8 billion in 2017 compared to 2016 primarily due to:

- an increase in net interchange fees primarily due to higher purchase volume; and
- gains from the sale of investment securities as a result of portfolio repositioning.

Non-interest income increased by $49 million to $4.6 billion in 2016 compared to 2015 primarily driven by:

- an increase in interchange fees driven by higher purchase volume in our Credit Card business, net of rewards expense from the continued expansion of our rewards franchise; and
- higher revenue attributable to our multifamily business in our Commercial Banking business.

These increases were partially offset by:

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

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $7.6 billion, $6.5 billion and $4.5 billion in 2017, 2016 and 2015, respectively. The provision for credit losses as a percentage of net interest income was 33.6%, 30.9% and 24.1% in 2017, 2016 and 2015, respectively.

Our provision for credit losses increased by $1.1 billion in 2017 compared to 2016 primarily driven by:

- higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning; and
- higher charge-offs in our auto loan portfolio due to growth.

These drivers were partially offset by lower provision in our commercial banking loan portfolio primarily driven by stabilizing industry conditions impacting our oil and gas lending portfolio compared to adverse industry conditions in the prior year.

Our provision for credit losses increased by $1.9 billion in 2016 compared to 2015 primarily driven by:

- higher charge-offs and a larger allowance build in our credit card loan portfolio due to growth and portfolio seasoning;
- higher charge-offs in our commercial loan portfolio as a result of continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios; and
- higher allowance in our auto loan portfolio due to continued loan growth, increasing loss expectations on recent originations and a build reflecting a change in accounting estimate of the timing of charge-offs of bankrupt accounts.

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

Non-Interest Expense

Table 4 displays the components of non-interest expense for 2017, 2016 and 2015. Certain prior period amounts have been recast to conform to the current period presentation.

Table 4: Non-Interest Expense

	Year Ended December 31,		
(Dollars in millions)	2017	2016	2015
Salaries and associate benefits	$5,899	$5,202	$4,975
Occupancy and equipment	1,939	1,944	1,829
Marketing	1,670	1,811	1,744
Professional services	1,097	1,075	1,120
Communications and data processing	1,177	1,169	1,055
Amortization of intangibles	245	386	430
Other non-interest expense:			
Bankcard, regulatory and other fee assessments	626	540	444
Collections	364	313	322
Fraud losses	334	331	316
Other	843	787	761
Total other non-interest expense	2,167	1,971	1,843
Total non-interest expense	$14,194	$13,558	$12,996

Non-interest expense increased by $636 million to $14.2 billion in 2017 compared to 2016 primarily due to:

- higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure; and
- restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations.

These increases were partially offset by:

- lower marketing expenses; and
- lower amortization of intangibles.

Non-interest expense increased by $562 million to $13.6 billion in 2016 compared to 2015, primarily due to:

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

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- higher bank optimization charges; and
- higher FDIC surcharges and premiums.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations consists of results from the discontinued mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint") and the discontinued manufactured housing operations of GreenPoint Credit, LLC, a subsidiary of GreenPoint, both of which were acquired as part of the North Fork Bancorporation, Inc. ("North Fork") acquisition in December 2006. Loss from discontinued operations, net of tax, was $135 million in 2017, primarily driven by a mortgage representation and warranty settlement in the fourth quarter of 2017, compared to loss of $19 million in 2016 and income of $38 million in 2015.

We provide additional information on discontinued operations in "Note 2—Business Developments and Discontinued Operations" and on the net benefit (provision) for mortgage representation and warranty losses and the related reserve for representation and warranty claims in "MD&A—Consolidated Balance Sheets Analysis—Mortgage Representation and Warranty Reserve" and "Note 19—Commitments, Contingencies, Guarantees and Others."

Income Taxes

We recorded income tax provision of $3.4 billion (61.5% effective income tax rate) in 2017, which includes charges of $1.8 billion associated with the estimated impacts of the Tax Act. The estimated impacts of the Tax Act consist of:

- $1.6 billion due to the revaluation of our net deferred tax assets reflecting the reduction in the U.S. corporate tax rate from 35% to 21%;
- $125 million related to the deemed repatriation of our undistributed foreign earnings; and
- $76 million associated with the revaluation of our investments in affordable housing projects.

The impacts of the Tax Act are considered to be reasonable estimates that are provisional in nature and are subject to potential adjustment during the measurement period ending no later than December 2018. See "MD&A—Accounting Changes and Developments" for more information on the accounting for the impacts of the Tax Act.

We recorded income tax provisions of $1.7 billion (31.3% effective income tax rate) and $1.9 billion (31.8% effective income tax rate) in 2016 and 2015, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The increase in our effective income tax rate in 2017 compared to 2016 was primarily due to charges of $1.8 billion associated with the impacts of the Tax Act, partially offset by a relative increase in the amount of tax credits and tax-exempt income.

The decrease in our effective income tax rate in 2016 compared to 2015 was primarily due to lower income before taxes and increased tax credits. This decrease was partially offset by reduced discrete tax benefits and a reduced benefit of lower taxed foreign earnings.

We recorded total discrete tax expense of $1.7 billion in 2017, primarily consisting of the charges of $1.8 billion for the estimated impacts of the Tax Act, and discrete tax benefits of $2 million and $15 million in 2016 and 2015, respectively. Our effective income tax rate, excluding the impact of discrete tax items, was 29.9%, 31.3% and 32.0% in 2017, 2016 and 2015, respectively.

We provide additional information on items affecting our income taxes and effective tax rate in "Note 16—Income Taxes."

CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by $8.7 billion to $365.7 billion as of December 31, 2017 from December 31, 2016 primarily driven by an increase in loans held for investment primarily due to growth in our domestic credit card loan portfolio, largely driven by loans obtained in the Cabela's acquisition, as well as growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.

Total liabilities increased by $7.4 billion to $317.0 billion as of December 31, 2017 from December 31, 2016 primarily driven by:

- an increase in our senior and subordinated notes; and
- an increase in our deposits.

These drivers were partially offset by a decrease in our Federal Home Loan Banks ("FHLB") advances outstanding, which is included in other debt.

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Stockholders' equity increased by $1.2 billion to $48.7 billion as of December 31, 2017 from December 31, 2016 primarily due to our net income of $2.0 billion in 2017, partially offset by $1.0 billion of dividend payments to our common and preferred stockholders.

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

Investment Securities

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

The fair value of our available for sale securities portfolio was $37.7 billion as of December 31, 2017, a decrease of $3.1 billion from December 31, 2016. The decrease in fair value was primarily due to the sale of investment securities as a result of portfolio repositioning. The fair value of our held to maturity securities portfolio was $29.4 billion as of December 31, 2017, an increase of $3.2 billion from December 31, 2016. The increase in fair value was primarily driven by purchases outpacing paydowns.

Table 5 presents the amortized cost, carrying value and fair value for the major categories of our investment securities portfolio as of December 31, 2017, 2016 and 2015.

Table 5: Investment Securities

	December 31,					
	2017		2016		2015	
(Dollars in millions)	Amortized Cost	Fair Value	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale:						
U.S. Treasury securities	$5,168	$5,171	$5,103	$5,065	$4,664	$4,660
RMBS:						
Agency	26,013	25,678	26,830	26,527	24,332	24,285
Non-agency	1,722	2,114	2,349	2,722	2,680	3,026
Total RMBS	27,735	27,792	29,179	29,249	27,012	27,311
CMBS	3,209	3,175	5,011	4,988	5,413	5,379
Other ABS	513	512	714	714	1,345	1,340
Other securities[1]	1,003	1,005	726	721	370	371
Total investment securities available for sale	$37,628	$37,655	$40,733	$40,737	$38,804	$39,061

(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity:						
U.S. Treasury securities	$200	$200	$199	$199	$199	$198
Agency RMBS	24,980	25,395	22,125	22,573	21,513	22,133
Agency CMBS	3,804	3,842	3,388	3,424	2,907	2,986
Total investment securities held to maturity	$28,984	$29,437	$25,712	$26,196	$24,619	$25,317

[1] Includes supranational bonds, foreign government bonds, mutual funds and equity investments.

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Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. As of December 31, 2017 and 2016, approximately 96% and 95% of our total investment securities portfolio was rated AA+ or its equivalent, or better, respectively, while approximately 3% and 4% was below investment grade, respectively. We categorize the credit ratings of our investment securities based on the lower of credit ratings issued by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's").

Table 6 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of December 31, 2017 and 2016. We sold all of our non-agency CMBS during 2017.

Table 6: Non-Agency Investment Securities Credit Ratings

	December 31, 2017				December 31, 2016			
(Dollars in millions)	Fair Value	AAA	Other Investment Grade	Below Investment Grade[(1)]	Fair Value	AAA	Other Investment Grade	Below Investment Grade[(1)]
Non-agency RMBS	$2,114	—	3 %	97 %	$2,722	—	3 %	97 %
Non-agency CMBS	—	—	—	—	1,684	100%	—	—
Other ABS	512	100%	—	—	714	99	1	—
Other securities	1,005	71	19	10	721	62	25	13

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(1) Includes investment securities that were not rated.

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

Loans Held for Investment

Total loans held for investment consists of both unsecuritized loans and loans held in our consolidated trusts. Table 7 summarizes the carrying value of our portfolio of loans held for investment by portfolio segment, the allowance for loan and lease losses, and net loan balance as of December 31, 2017 and 2016.

Table 7: Loans Held for Investment

	December 31, 2017			December 31, 2016		
(Dollars in millions)	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	$114,762	$ 5,648	$109,114	$105,552	$ 4,606	$100,946
Consumer Banking	75,078	1,242	73,836	73,054	1,102	71,952
Commercial Banking	64,575	611	63,964	66,916	793	66,123
Other	58	1	57	64	2	62
Total	$254,473	$ 7,502	$246,971	$245,586	$ 6,503	$239,083

Loans held for investment increased by $8.9 billion to $254.5 billion as of December 31, 2017 from December 31, 2016 primarily due to growth in our domestic credit card loan portfolio, largely driven by loans obtained in the Cabela's acquisition, as well as growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.

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

Deposits

Our deposits represent our largest source of funding for our operations and provide a consistent source of low-cost funds. Total deposits increased by $6.9 billion to $243.7 billion as of December 31, 2017 from December 31, 2016. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield in "MD&A—Liquidity Risk Profile."

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Securitized Debt Obligations

Securitized debt obligations increased to $20.0 billion as of December 31, 2017 from $18.8 billion as of December 31, 2016 primarily driven by securitized debt obligations assumed in the Cabela's acquisition, partially offset by maturities outpacing issuances. We provide additional information on our borrowings in "MD&A—Liquidity Risk Profile" and in "Note 9—Deposits and Borrowings."

Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes, and FHLB advances, totaled $40.3 billion as of December 31, 2017, of which $39.7 billion represented long-term debt and the remainder represented short-term borrowings. Other debt totaled $41.6 billion as of December 31, 2016, of which $40.6 billion represented long-term debt and the remainder represented short-term borrowings.

The decrease in other debt of $1.4 billion in 2017 was primarily attributable to a decrease in our FHLB advances outstanding, partially offset by an increase in our senior and subordinated notes. We provide additional information on our borrowings in "MD&A—Liquidity Risk Profile" and in "Note 9—Deposits and Borrowings."

Mortgage Representation and Warranty Reserve

We face residual exposure related to subsidiaries that originated residential mortgage loans and sold these loans to various purchasers, including purchasers who created securitization trusts. We establish 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. These reserves are reported on our consolidated balance sheets as a component of other liabilities. As a result of resolutions and settlements of the substantial majority of our active representation and warranty matters in 2017, our reserve was immaterial as of December 31, 2017. See "Note 19—Commitments, Contingencies, Guarantees and Others" for additional information.

Deferred Tax Assets and Liabilities

Deferred tax assets and liabilities represent decreases or increases in taxes expected to be paid in the future because of future reversals of temporary differences between the financial reporting and tax bases of assets and liabilities, as well as from net operating loss and tax credit carryforwards. Deferred tax assets are recognized subject to management's judgment that realization is more likely than not. We evaluate the recoverability of these future tax deductions by assessing the adequacy of expected taxable income from all sources, including taxable income in carryback years, reversal of taxable temporary differences, forecasted operating earnings and available tax planning strategies. These sources of income rely heavily on estimates. We use our historical experience and our short and long-range business forecasts to provide insight.

Deferred tax assets, net of deferred tax liabilities and valuation allowances, were approximately $2.9 billion as of December 31, 2017, a decrease of $1.4 billion from December 31, 2016. The decrease in our net deferred tax assets was primarily driven by the revaluation reflecting the reduction in the U.S. corporate tax rate from 35% to 21% effective January 1, 2018, as a result of the Tax Act. The impacts of the Tax Act are considered to be reasonable estimates that are provisional in nature and are subject to potential adjustment during the measurement period ending no later than December 2018. See "MD&A—Accounting Changes and Developments" for more information on the accounting for the impacts of the Tax Act.

We have recorded valuation allowances of $226 million and $179 million as of December 31, 2017 and 2016, respectively. The increase in valuation allowance was primarily driven by the reduction in federal income tax rate as a result of the Tax Act. We expect to fully realize the 2017 net deferred tax asset amounts in future periods. If changes in circumstances lead us to change our judgment about our ability to realize deferred tax assets in future years, we will adjust our valuation allowances in the period that our change in judgment occurs and record a corresponding increase or charge to income.

We provide additional information on income taxes in "MD&A—Consolidated Results of Operations" and in "Note 16—Income Taxes."

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OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in certain activities that are not reflected on our consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities typically involve transactions with unconsolidated variable interest entities ("VIEs") as well as other arrangements, such as letter of credits, loan commitments and guarantees, to meet the financing needs of our customers and support their ongoing operations. We provide additional information regarding these types of activities in "Note 6—Variable Interest Entities and Securitizations" and "Note 19—Commitments, Contingencies, Guarantees and Others."

BUSINESS SEGMENT FINANCIAL PERFORMANCE

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

The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and net fees are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched maturity method that takes into consideration market interest rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired businesses. We regularly assess the assumptions, methodologies and reporting classifications used for segment reporting, which may result in the implementation of refinements or changes in future periods.

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, changes in our financial condition and credit performance metrics for the years ended December 31, 2017, 2016 and 2015, as well as a comparative discussion of these results. We provide a reconciliation of our total business segment results to our reported consolidated results in "Note 18—Business Segments."

Business Segment Financial Performance

Table 8 summarizes our business segment results, which we report based on revenue and income from continuing operations, for the years ended December 31, 2017, 2016 and 2015. We provide information on the allocation methodologies used to derive our business segment results in "Note 18—Business Segments."

Table 8: Business Segment Results

	Year Ended December 31,											
	2017				2016				2015			
	Total Net Revenue[1]		Net Income (Loss)[2]		Total Net Revenue[1]		Net Income[2]		Total Net Revenue[1]		Net Income[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total

Credit Card	$16,973	62 %	$1,920	91 %	$16,015	62 %	$2,160	58 %	$14,582	62 %	$2,354	59 %
Consumer Banking	7,129	26	1,090	51	6,562	26	870	23	6,465	28	1,034	26
Commercial Banking(3)	2,969	11	676	32	2,794	11	575	15	2,352	10	570	14
Other(3)	166	1	(1,569)	(74)	130	1	165	4	14	—	54	1
Total	$27,237	100%	$2,117	100 %	$25,501	100%	$3,770	100%	$23,413	100%	$4,012	100%

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

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

(3) Some of our 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 (35% for all periods presented), with offsetting reductions to the Other category.

Credit Card Business

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

Our Credit Card business generated net income from continuing operations of $1.9 billion, $2.2 billion and $2.4 billion in 2017, 2016 and 2015, respectively.

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

Table 9: Credit Card Business Results

(Dollars in millions, except as noted)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Selected income statement data:					
Net interest income	$13,648	$12,635	$11,161	8 %	13 %
Non-interest income	3,325	3,380	3,421	(2)	(1)
Total net revenue[1]	16,973	16,015	14,582	6	10
Provision for credit losses	6,066	4,926	3,417	23	44
Non-interest expense	7,916	7,703	7,502	3	3
Income from continuing operations before income taxes	2,991	3,386	3,663	(12)	(8)
Income tax provision	1,071	1,226	1,309	(13)	(6)
Income from continuing operations, net of tax	$1,920	$2,160	$2,354	(11)	(8)
Selected performance metrics:					
Average loans held for investment[2]	$103,468	$96,560	$86,735	7	11
Average yield on loans held for investment[3]	15.21 %	14.68 %	14.28 %	53 bps	40 bps
Total net revenue margin[4]	16.40	16.59	16.81	(19)	(22)
Net charge-offs	$5,054	$3,953	$2,918	28 %	35 %
Net charge-off rate	4.88 %	4.09 %	3.36 %	79 bps	73 bps
Purchase volume[5]	$336,440	$307,138	$271,167	10 %	13 %

(Dollars in millions, except as noted)	December 31, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment[2]	$114,762	$105,552	9 %
30+ day performing delinquency rate	3.98 %	3.91 %	7 bps
30+ day delinquency rate	3.99	3.94	5
Nonperforming loan rate[6]	0.02	0.04	(2)
Allowance for loan and lease losses	$5,648	$4,606	23 %
Allowance coverage ratio	4.92 %	4.36 %	56 bps

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(1)

We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $1.4 billion, $1.1 billion and $732 million in 2017, 2016 and 2015, respectively, for the estimated uncollectible amount of billed finance charges and fees and related losses. The finance charge and fee reserve totaled $491 million and $402 million as of December 31, 2017 and 2016, respectively.

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

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

(4) Total net revenue margin is calculated by dividing total net revenue for the period by average loans held for investment during the period. Interest income also includes interest income on loans held for sale.

(5) Purchase volume consists of purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale, and excludes cash advance and balance transfer transactions.

(6) Within our credit card loan portfolio, only certain loans in our international card businesses are classified as nonperforming. See "MD&A—Nonperforming Loans and Other Nonperforming Assets" for additional information.

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

- Net Interest Income: Net interest income increased by $1.0 billion to $13.6 billion in 2017 primarily driven by loan growth in our Domestic Card business.
- Non-Interest Income: Non-interest income was substantially flat at $3.3 billion in 2017 primarily driven by:
  - lower service charges and other customer-related fees, including the impact of the exit of our legacy payment protection products in our Domestic Card business during the first quarter of 2016; and
  - the absence of a gain recorded in the second quarter of 2016 related to the exchange of our ownership interest in Visa Europe with Visa Inc. as a result of Visa Inc.'s acquisition of Visa Europe.

  These drivers were largely offset by an increase in net interchange fees primarily due to higher purchase volume.
- Provision for Credit Losses: The provision for credit losses increased by $1.1 billion to $6.1 billion in 2017 primarily driven by:
  - higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning; and
  - a larger allowance build in our domestic credit card loan portfolio primarily due to increasing losses from recent vintages and portfolio seasoning.
- Non-Interest Expense: Non-interest expense increased by $213 million to $7.9 billion in 2017, primarily driven by higher operating expenses associated with loan growth and continued investments in technology and infrastructure. This driver was partially offset by:
  - lower marketing expenses;
  - lower amortization of intangibles; and
  - operating efficiencies.
- Loans Held for Investment: Period-end loans held for investment increased by $9.2 billion to $114.8 billion as of December 31, 2017 from December 31, 2016 primarily due to:
  - growth in our domestic credit card loan portfolio, largely driven by loans obtained in the Cabela's acquisition; and
  - the impact of foreign exchange rates in our international card businesses driven by the weakening of the U.S. dollar in 2017.

  Average loans held for investment increased by $6.9 billion to $103.5 billion in 2017 compared to 2016 primarily due to growth in our Domestic Card business.
- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 79 basis points to 4.88% in 2017 compared to 2016 primarily driven by growth and seasoning of recent domestic credit card loan originations. The 30+ day delinquency rate increased by 5 basis points to 3.99% as of December 31, 2017 from December 31, 2016 primarily due to growth and seasoning of recent domestic credit card loan originations, partially offset by loans obtained in the Cabela's acquisition.

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Key factors affecting the results of our Credit Card business for 2016 compared to 2015, and changes in financial condition and credit performance between December 31, 2016 and December 31, 2015 include the following:

- Net Interest Income: Net interest income increased by $1.5 billion to $12.6 billion in 2016 primarily driven by loan growth in our Domestic Card business.
- Non-Interest Income: Non-interest income was flat at $3.4 billion in 2016 as an increase in interchange fees driven by higher purchase volume was largely offset by:
  - higher rewards expense from the continued expansion of our rewards franchise; and
  - lower service charges and other customer-related fees primarily due to the exit of our legacy payment protection products in our Domestic Card business during the first quarter of 2016.
- Provision for Credit Losses: The provision for credit losses increased by $1.5 billion to $4.9 billion in 2016 primarily driven by higher charge-offs and a larger allowance build due to continued loan growth and portfolio seasoning.
- Non-Interest Expense: Non-interest expense increased by $201 million to $7.7 billion in 2016 primarily attributable to higher operating expenses associated with loan growth as well as continued investments in technology, partially offset by operating efficiencies.
- Loans Held for Investment: Period-end loans held for investment increased by $9.4 billion to $105.6 billion as of December 31, 2016 from December 31, 2015, and average loans held for investment increased by $9.8 billion to $96.6 billion in 2016 compared to 2015, both primarily due to continued loan growth in our Domestic Card business.
- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 73 basis points to 4.09% in 2016 compared to 2015, and the 30+ day delinquency rate increased by 54 basis points to 3.94% as of December 31, 2016 from December 31, 2015. These increases were primarily driven by growth and seasoning of credit card loan originations, partially offset by continued growth in our domestic credit card loan portfolio.

Domestic Card Business

Domestic Card generated net income from continuing operations of $1.7 billion, $2.1 billion and $2.2 billion in 2017, 2016 and 2015, respectively. In 2017, 2016 and 2015, Domestic Card accounted for greater than 90% of total net revenue of our Credit Card business.

Table 9.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

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Table 9.1: Domestic Card Business Results

(Dollars in millions, except as noted)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Selected income statement data:					
Net interest income	$12,504	$11,571	$10,147	8 %	14 %
Non-interest income	3,069	3,116	3,183	(2)	(2)
Total net revenue[1]	15,573	14,687	13,330	6	10
Provision for credit losses	5,783	4,555	3,204	27	42
Non-interest expense	7,078	6,895	6,627	3	4
Income from continuing operations before income taxes	2,712	3,237	3,499	(16)	(7)
Income tax provision	990	1,178	1,267	(16)	(7)
Income from continuing operations, net of tax	$1,722	$2,059	$2,232	(16)	(8)
Selected performance metrics:					
Average loans held for investment[2]	$94,923	$88,394	$78,743	7	12
Average yield on loans held for investment[3]	15.16 %	14.62 %	14.21 %	54 bps	41 bps
Total net revenue margin[4]	16.41	16.62	16.93	(21)	(31)
Net charge-offs	$4,739	$3,681	$2,718	29 %	35 %
Net charge-off rate	4.99 %	4.16 %	3.45 %	83 bps	71 bps
Purchase volume[5]	$306,824	$280,637	$246,740	9 %	14 %

(Dollars in millions, except as noted)	December 31, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment[2]	$105,293	$97,120	8 %
30+ day delinquency rate	4.01 %	3.95 %	6 bps
Allowance for loan and lease losses	$5,273	$4,229	25 %
Allowance coverage ratio	5.01 %	4.35 %	66 bps

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

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

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

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

(5) Purchase volume consists of purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale, and excludes cash advance and balance transfer transactions.

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results are similar to the key factors affecting our total Credit Card business. Net income for our Domestic Card business decreased in 2017 compared to 2016 primarily driven by:

- higher provision for credit losses; and
- higher operating expenses associated with loan growth and continued investments in technology and infrastructure.

These drivers were partially offset by:

- higher net interest income primarily driven by loan growth;
- lower marketing expenses; and
- operating efficiencies.

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Net income for our Domestic Card business decreased in 2016 compared to 2015 primarily driven by:

- higher provision for credit losses; and
- higher operating expenses associated with continued loan growth.

These drivers were partially offset by higher net interest income resulting from loan growth.

Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of $1.1 billion, $870 million and $1.0 billion in 2017, 2016 and 2015, respectively.

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

Table 10: Consumer Banking Business Results

(Dollars in millions, except as noted)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Selected income statement data:					
Net interest income	$6,380	$5,829	$5,755	9 %	1 %
Non-interest income	749	733	710	2	3
Total net revenue	7,129	6,562	6,465	9	2
Provision for credit losses	1,180	1,055	819	12	29
Non-interest expense	4,233	4,139	4,026	2	3
Income from continuing operations before income taxes	1,716	1,368	1,620	25	(16)
Income tax provision	626	498	586	26	(15)
Income from continuing operations, net of tax	$1,090	$870	$1,034	25	(16)
Selected performance metrics:					
Average loans held for investment:[1]					
Auto	$51,477	$44,521	$39,967	16	11
Home loan	19,681	23,358	27,601	(16)	(15)
Retail banking	3,463	3,543	3,582	(2)	(1)
Total consumer banking	$74,621	$71,422	$71,150	4	—
Average yield on loans held for investment[2]	6.67 %	6.34 %	6.26 %	33 bps	8 bps
Average deposits	$185,201	$177,129	$170,757	5 %	4 %
Average deposits interest rate	0.62 %	0.56 %	0.56 %	6 bps	—
Net charge-offs	$1,038	$820	$731	27 %	12 %
Net charge-off rate	1.39 %	1.15 %	1.03 %	24 bps	12 bps
Net charge-off rate (excluding PCI loans)	1.65	1.49	1.45	16	4
Auto loan originations	$27,737	$25,719	$21,185	8 %	21 %

(Dollars in millions, except as noted)	December 31, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment:[1]			
Auto	$53,991	$47,916	13 %
Home loan	17,633	21,584	(18)
Retail banking	3,454	3,554	(3)
Total consumer banking	$75,078	$73,054	3
30+ day performing delinquency rate	4.76 %	4.10 %	66 bps
30+ day performing delinquency rate (excluding PCI loans)	5.52	5.12	40
30+ day delinquency rate	5.34	4.67	67
30+ day delinquency rate (excluding PCI loans)	6.19	5.82	37
Nonperforming loan rate	0.78	0.72	6
Nonperforming loan rate (excluding PCI loans)	0.91	0.90	1
Nonperforming asset rate[3]	0.91	1.09	(18)
Nonperforming asset rate (excluding PCI loans)[3]	1.06	1.36	(30)
Allowance for loan and lease losses	$1,242	$1,102	13 %
Allowance coverage ratio[4]	1.65 %	1.51 %	14 bps
Deposits	$185,842	$181,917	2 %

Loans serviced for others[5]	8,598	8,258	4

(1) Average consumer banking loans held for investment includes purchased credit-impaired loans ("PCI loans") of $12.2 billion, $16.4 billion and $20.7 billion in 2017, 2016 and 2015, respectively. Period-end consumer banking loans held for investment includes PCI loans with carrying values of $10.3 billion and $14.5 billion as of December 31, 2017 and 2016, respectively.

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

(4) Excluding the impact of the PCI loan amounts in footnote 1 above, the allowance coverage ratio for our total consumer banking portfolio was 1.87% and 1.83% as of December 31, 2017 and 2016, respectively.

(5) Loans serviced for others represents loans serviced for third parties related to our consumer home loan business.

Key factors affecting the results of our Consumer Banking business for 2017 compared to 2016, and changes in financial condition and credit performance between December 31, 2017 and December 31, 2016 include the following:

- Net Interest Income: Net interest income increased by $551 million to $6.4 billion in 2017 primarily driven by growth in our auto loan portfolio and higher deposit volumes and margins in our retail banking business.

Consumer Banking loan yield increased by 33 basis points to 6.7% in 2017 compared to 2016. The increase was primarily driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and run-off of our acquired home loan portfolio.

- Non-Interest Income: Non-interest income was substantially flat at $749 million in 2017 as a mortgage representation and warranty reserve release in the first quarter of 2017 had a similar impact as the customer rewards reserve release within our retail banking business in the first quarter of 2016 related to the discontinuation of certain debit card and deposit products.
- Provision for Credit Losses: The provision for credit losses increased by $125 million to $1.2 billion in 2017 primarily driven by higher losses in our auto loan portfolio due to growth.
- Non-Interest Expense: Non-interest expense increased by $94 million to $4.2 billion in 2017 primarily due to higher operating expenses driven by growth in our auto loan portfolio and continued investment in technology and infrastructure, partially offset by operating efficiencies.
- Loans Held for Investment: Period-end loans held for investment increased by $2.0 billion to $75.1 billion as of December 31, 2017 from December 31, 2016, and average loans held for investment increased by $3.2 billion to $74.6 billion in 2017 compared to 2016. These increases were due to growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.
- Deposits: Period-end deposits increased by $3.9 billion to $185.8 billion as of December 31, 2017 from December 31, 2016.
- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 24 basis points to 1.39% in 2017 compared to 2016. This increase was primarily driven by:

higher losses in our auto loan portfolio due to changes in our charge-off practices for certain bankrupt accounts and growth; and

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

The 30+ day delinquency rate increased by 67 basis points to 5.34% as of December 31, 2017 from December 31, 2016 primarily attributable to higher auto delinquency inventories.

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

- Net Interest Income: Net interest income was flat at $5.8 billion in 2016 as growth in our auto loan portfolio was offset by the continued run-off of our acquired home loan portfolio and margin compression in our auto loan portfolio.

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Consumer Banking loan yield increased by 8 basis points to 6.3% in 2016 compared to 2015. The increase was primarily driven by changes in the product mix in Consumer Banking as a result of the continued run-off of our acquired home loan portfolio and growth in our auto loan portfolio, partially offset by declining yield in our auto loan portfolio.

- Non-Interest Income: Non-interest income was substantially flat at $733 million in 2016.
- Provision for Credit Losses: The provision for credit losses increased by $236 million to $1.1 billion in 2016 primarily driven by:
  - a higher allowance in our auto loan portfolio due to continued loan growth, increasing loss expectations on recent originations and a build reflecting a change in accounting estimate of the timing of charge-offs of bankrupt accounts; and
  - higher charge-offs in our auto loan portfolio due to seasoning of recent growth.
- Non-Interest Expense: Non-interest expense increased by $113 million to $4.1 billion in 2016 primarily due to:
  - higher operating expenses driven by growth in our auto loan portfolio; and
  - higher marketing expenses.
- Loans Held for Investment: Period-end loans held for investment increased by $2.7 billion to $73.1 billion as of December 31, 2016 from December 31, 2015, and average loans held for investment increased by $272 million to $71.4 billion in 2016 compared to 2015. The increases were primarily due to growth in our auto loan portfolio, partially offset by the continued run-off of our acquired home loan portfolio.
- Deposits: Period-end deposits increased by $9.2 billion to $181.9 billion as of December 31, 2016 from December 31, 2015 as a result of strong growth in our deposit products that are sold directly to both existing and new customers.
- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 12 basis points to 1.15% in 2016 compared to 2015. The increase reflects the greater portion of auto loans in our total consumer banking loan portfolio, which generally have higher charge-off rates than other products within this portfolio. The 30+ day delinquency rate was flat at 4.67% as of both December 31, 2016 and December 31, 2015.

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 our Commercial Banking business has loans and investments that generate tax-exempt income or tax credits, we make certain reclassifications to present revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Commercial Banking business generated net income from continuing operations of $676 million, $575 million and $570 million in 2017, 2016 and 2015, respectively.

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

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Table 11: Commercial Banking Business Results

(Dollars in millions, except as noted)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016	Change 2016 vs. 2015
Selected income statement data:					
Net interest income	$2,261	$ 2,216	$1,865	2 %	19 %
Non-interest income	708	578	487	22	19
Total net revenue[1]	2,969	2,794	2,352	6	19
Provision (benefit) for credit losses[2]	301	483	302	(38)	60
Non-interest expense	1,603	1,407	1,156	14	22
Income from continuing operations before income taxes	1,065	904	894	18	1
Income tax provision	389	329	324	18	2
Income from continuing operations, net of tax	$676	$ 575	$570	18	1
Selected performance metrics:					
Average loans held for investment:[3]					
Commercial and multifamily real estate	$27,370	$ 25,821	$23,728	6	9
Commercial and industrial	39,606	38,852	28,349	2	37
Total commercial lending	66,976	64,673	52,077	4	24
Small-ticket commercial real estate	442	548	692	(19)	(21)
Total commercial banking	$67,418	$ 65,221	$52,769	3	24
Average yield on loans held for investment[1][4]	3.87 %	3.47 %	3.21 %	40 bps	26 bps
Average deposits	$33,947	$ 33,841	$33,058	—	2 %
Average deposits interest rate	0.39 %	0.28 %	0.25 %	11 bps	3 bps
Net charge-offs	$465	$ 292	$47	59 %	**
Net charge-off rate	0.69 %	0.45 %	0.09 %	24 bps	36 bps

(Dollars in millions, except as noted)	December 31, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment:[3]			
Commercial and multifamily real estate	$26,150	$ 26,609	(2)%
Commercial and industrial	38,025	39,824	(5)
Total commercial lending	64,175	66,433	(3)
Small-ticket commercial real estate	400	483	(17)
Total commercial banking	$64,575	$ 66,916	(3)
Nonperforming loan rate	0.44 %	1.53 %	(109)bps
Nonperforming asset rate[5]	0.52	1.54	(102)
Allowance for loan and lease losses[2]	$611	$ 793	(23)%
Allowance coverage ratio	0.95 %	1.19 %	(24)bps
Deposits	$33,938	$ 33,866	—
Loans serviced for others	27,764	22,321	24 %

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(1) Some of our 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 (35% for all periods presented), with offsetting reductions to the Other category.

(2) The provision for losses on unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other

liabilities on our consolidated balance sheets. Our reserve for unfunded lending commitments totaled $117 million, $129 million and $161 million as of December 31, 2017, 2016 and 2015, respectively.

(3) Average commercial banking loans held for investment includes PCI loans of $540 million, $770 million and $215 million in 2017, 2016 and 2015, respectively. Period-end commercial banking loans held for investment includes PCI loans of $480 million and $613 million as of December 31, 2017 and 2016, respectively.

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

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

** Change is not meaningful.

Key factors affecting the results of our Commercial Banking business for 2017 compared to 2016, and changes in financial condition and credit performance between December 31, 2017 and December 31, 2016 include the following:

- Net Interest Income: Net interest income was substantially flat at $2.3 billion in 2017.
- Non-Interest Income: Non-interest income increased by $130 million to $708 million in 2017 primarily driven by:
  - higher revenue from our commercial investments that generate tax credits; and
  - higher service charges and other customer-related fees as a result of increased activity across a broad range of products and services provided to our commercial customers.
- Provision for Credit Losses: The provision for credit losses decreased by $182 million to $301 million in 2017 primarily driven by stabilizing industry conditions impacting our oil and gas lending portfolio compared to adverse industry conditions in the prior year.
- Non-Interest Expense: Non-interest expense increased by $196 million to $1.6 billion in 2017 primarily driven by higher operating expenses associated with growth and continued investments in technology and other business initiatives.
- Loans Held for Investment: Period-end loans held for investment decreased by $2.3 billion to $64.6 billion as of December 31, 2017 from December 31, 2016 primarily due to:
  - paydowns in our commercial and industrial loan portfolios;
  - charge-offs in our taxi medallion lending portfolio; and
  - the transfer of the substantial majority of our remaining taxi medallion lending portfolio from loans held for investment to loans held for sale.

  Average loans held for investment increased by $2.2 billion to $67.4 billion in 2017 compared to 2016 primarily driven by growth across our commercial loan portfolios.
- Deposits: Period-end deposits were substantially flat at $33.9 billion as of December 31, 2017.
- Net Charge-Off and Nonperforming Metrics: The net charge-off rate increased by 24 basis points to 0.69% in 2017 compared to 2016 primarily driven by higher charge-offs in our taxi medallion lending portfolio resulting from declines in taxi medallion values.

  The nonperforming loan rate decreased by 109 basis points to 0.44% as of December 31, 2017 from December 31, 2016 primarily due to:
  - a combination of improved credit risk ratings, charge-offs and paydowns in our oil and gas portfolio; and
  - charge-offs in our taxi medallion lending portfolio resulting from declines in taxi medallion values and the impact of transferring the substantial majority of our remaining taxi medallion lending portfolio, which was downgraded to nonperforming classification in the third quarter of 2017, from loans held for investment to loans held for sale.

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

- Net Interest Income: Net interest income increased by $351 million to $2.2 billion in 2016 primarily driven by loan growth, including loans obtained in the HFS acquisition.

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- Non-Interest Income: Non-interest income increased by $91 million to $578 million in 2016 primarily driven by fee-based services, including impacts from the HFS acquisition, and products attributable to our multifamily finance business.
- Provision for Credit Losses: The provision for credit losses increased by $181 million to $483 million in 2016 primarily driven by higher charge-offs, partially offset by a smaller allowance build, due to continued adverse industry conditions impacting our taxi medallion and oil and gas lending portfolios.
- Non-Interest Expense: Non-interest expense increased by $251 million to $1.4 billion in 2016 driven by higher operating expenses due to costs associated with the HFS acquisition and continued growth in our Commercial Banking business.
- Loans Held for Investment: Period-end loans held for investment increased by $3.7 billion to $66.9 billion as of December 31, 2016 from December 31, 2015 driven by growth in our commercial loan portfolios. Average loans held for investment increased by $12.5 billion to $65.2 billion in 2016 compared to 2015 primarily driven by the HFS acquisition and growth in our commercial loan portfolios.
- Deposits: Period-end deposits decreased by $391 million to $33.9 billion as of December 31, 2016 from December 31, 2015.
- Net Charge-Off and Nonperforming Metrics: The net charge-off rate increased by 36 basis points to 0.45% in 2016 compared to 2015, reflecting rising losses in our taxi medallion and oil and gas lending portfolios. Increased credit risk rating downgrades in these same lending portfolios resulted in the nonperforming loan rate increasing by 66 basis points to 1.53% as of December 31, 2016 from December 31, 2015.

Other Category

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

- foreign exchange-rate fluctuations on foreign currency-denominated balances;
- unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as certain restructuring charges;
- offsets related to certain line-item reclassifications; and
- residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments.

Table 12 summarizes the financial results of our Other category for the periods indicated.

Table 12: Other Category Results

(Dollars in millions)	Year Ended December 31, 2017	2016	2015	Change 2017 vs. 2016	2016 vs. 2015
Selected income statement data:					
Net interest income	$171	$193	$53	(11)%	**
Non-interest income	(5)	(63)	(39)	(92)	62%
Total net revenue[1]	166	130	14	28	**
Provision (benefit) for credit losses	4	(5)	(2)	**	150
Non-interest expense	442	309	312	43	(1)
Income (loss) from continuing operations before income taxes	(280)	(174)	(296)	61	(41)
Income tax provision (benefit)	1,289	(339)	(350)	**	(3)
Income (loss) from continuing operations, net of tax	$(1,569)	$165	$54	**	**

(1) Some of our 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 (35% for all periods presented), with offsetting reductions to the Other category.

** Change is not meaningful.

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Net loss from continuing operations recorded in the Other category was $1.6 billion in 2017 compared to net income of $165 million in 2016. The loss in 2017 was primarily driven by:

- charges associated with the estimated impacts of the Tax Act; and
- higher operating expenses associated with restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations, as well as the realignment of resources supporting our businesses.

Net income from continuing operations recorded in the Other category was $165 million in 2016 compared to $54 million in 2015. The increase in 2016 was primarily driven by:

- higher net interest income due to balance sheet growth, as well as the impact of rates on our other treasury-related activities; and
- lower restructuring charges for severance and related benefits pursuant to our ongoing benefit programs as a result of the realignment of our workforce.

These drivers were partially offset by:

- higher bank optimization charges and an impairment charge associated with certain acquired intangible and software assets within non-interest expense;
- lower non-interest income due to rate-driven hedge ineffectiveness; and
- a reduced income tax benefit as a result of higher income before taxes and increased discrete tax expense, partially offset by increased tax credits.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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
- Customer rewards reserve

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

Loan Loss Reserves

We maintain an allowance for loan and lease losses that represents management’s estimate of incurred loan and lease losses inherent in our credit card, consumer banking and commercial banking loans held for investment portfolios as of each balance sheet date. We also separately reserve for binding unfunded lending commitments, letters of credit and financial guarantees.

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We build our allowance for loan and lease losses and reserve for unfunded lending commitments through the provision for credit losses. Our provision for credit losses in each period is driven by charge-offs, changes to allowance for loan and lease losses, and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $7.6 billion, $6.5 billion and $4.5 billion in 2017, 2016 and 2015, respectively.
We have an established process, using analytical tools and management judgment, to determine our allowance for loan and lease losses. Losses are inherent in our loan portfolios and we calculate the allowance for loan and lease losses by estimating incurred losses for segments of our loan portfolios with similar risk characteristics and record a provision for credit losses. The allowance totaled $7.5 billion as of December 31, 2017, compared to $6.5 billion as of December 31, 2016.
We review and assess our allowance methodologies and adequacy of the allowance for loan and lease losses on a quarterly basis. Our assessment involves evaluating many factors including, but not limited to, historical loss and recovery experience, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, general economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for loan and lease losses. Key factors that have a significant impact on our allowance for loan and lease losses include assumptions about unemployment rates, home prices and the valuation of commercial properties and other collateral, consumer real estate and automobiles.
In addition to the allowance for loan and lease losses, we review and assess our estimate of probable losses related to binding unfunded lending commitments, such as letters of credit and financial guarantees, and unfunded loan commitments on a quarterly basis. The factors impacting our assessment generally align with those considered in our evaluation of the allowance for loan and lease losses for the Commercial Banking business. Changes to the reserve for losses on unfunded lending commitments are recorded through the provision for credit losses in the consolidated statements of income and to other liabilities on the consolidated balance sheets.
Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses and reserve for unfunded lending commitments, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in "Note 1—Summary of Significant Accounting Policies." We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in "Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments."
Finance Charge and Fee Reserves
Finance charges and fees on credit card loans, net of amounts that we consider uncollectible, are included in loan receivables and revenue when the finance charges and fees are earned. We continue to accrue finance charges and fees on credit card loans until the account is charged-off; however, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue. Total net revenue was reduced by $1.4 billion, $1.1 billion and $732 million in 2017, 2016 and 2015, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $491 million as of December 31, 2017, compared to $402 million as of December 31, 2016.
We review and assess the adequacy of the uncollectible finance charge and fee reserve on a quarterly basis. Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred losses on the principal portion of our credit card loan receivables.
Asset Impairment
In addition to our loan portfolio, we review other assets for impairment on a regular basis in accordance with applicable impairment accounting guidance. This process requires significant management judgment and involves

various estimates and assumptions. Below we describe our process for assessing impairment of goodwill and intangible assets and the key estimates and assumptions involved in this process.

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Goodwill and Intangible Assets

Goodwill represents the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill totaled $14.5 billion as of both December 31, 2017 and 2016. Intangible assets, which we report on our consolidated balance sheets as a component of other assets, consist primarily of purchased credit card relationships ("PCCR"), core deposit and other intangibles. The net carrying amount of intangible assets decreased to $421 million as of December 31, 2017, from $665 million as of December 31, 2016 primarily due to amortization. Goodwill and intangible assets together represented 4% of our total assets as of both December 31, 2017 and 2016. We did not recognize any goodwill impairment in 2017, 2016 or 2015. See "Note 7—Goodwill and Intangible Assets" for additional information.

Goodwill

We perform our goodwill impairment test annually on October 1 at a reporting unit level. We are also required to test goodwill for impairment whenever events or circumstances make it more-likely-than-not that impairment may have occurred. In 2017, we had four reporting units: Credit Card, Auto, Other Consumer Banking and Commercial Banking.

The goodwill impairment test is a two-step process. The first step involves a comparison of the estimated fair value of a reporting unit to its carrying amount, including goodwill. If the estimated fair value exceeds its carrying amount, goodwill of the reporting unit is not impaired and the second step is not necessary. If the estimated fair value of a reporting unit is below its carrying amount, then the second step, which requires measurement of any potential impairment, must be performed. The second step of goodwill impairment testing requires an extensive effort to build the specific reporting unit's balance sheet for the test based on applicable accounting guidance.

For the purpose of our goodwill impairment testing, we calculate the carrying amount of a reporting unit using an allocated capital approach based on each reporting unit's specific regulatory capital, economic capital requirements, and underlying risks. The carrying amount for a reporting unit is the sum of its respective capital requirements, goodwill and intangibles balances. We then compare the carrying amount to our total consolidated stockholders' equity to assess the reasonableness of our methodology. The total carrying amount of our four reporting units was $43.6 billion, as compared to consolidated stockholder's equity of $50.2 billion as of October 1, 2017. The $6.6 billion excess in consolidated stockholder's equity was primarily attributable to capital allocated to our Other category and other future capital needs such as dividends.

Determining the fair value of a reporting unit and the associated assets, liabilities and intangible assets, is a subjective process that requires the use of estimates and the exercise of significant judgment. The fair value of the reporting units was calculated using a discounted cash flow ("DCF") calculation, a form of the income approach. This income approach calculation used projected cash flows based on each reporting unit's internal forecast and the perpetuity growth method to calculate terminal values. Our DCF analysis requires management to make estimates about future loan, deposit and revenue growth, as well as credit losses and capital rates. These cash flows and terminal values were then discounted using discount rates based on our external cost of equity with adjustments for the risk inherent in each reporting unit. The reasonableness of the DCF approach was assessed by reference to a market-based approach using comparable market multiples and recent market transactions where available. The results of the 2017 annual impairment test for the Credit Card, Auto, Other Consumer Banking and Commercial Banking reporting units indicated that the estimated fair values of these four reporting units substantially exceeded their carrying amounts.

By definition, assumptions used in estimating the fair value of a reporting unit are judgmental and inherently uncertain. A significant change in the economic conditions of a reporting unit, such as declines in business performance, increases in credit losses, increases in capital requirements, deterioration in market conditions, adverse estimates of regulatory or legislative changes or increases in the estimated cost of equity, could cause the estimated fair values of our reporting units to decline in the future, and increase the risk of a goodwill impairment charge to earnings in a future period.

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Intangible Assets

Intangible assets with definitive useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying amount may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying amount of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying amount. There was no meaningful impairment of intangible assets in 2017 or 2015. We recorded an impairment charge of $17 million in 2016 related primarily to our brokerage relationship intangibles.

See "Note 7—Goodwill and Intangible Assets" for additional information.

Fair Value

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

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities

Level 3: Unobservable inputs

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value.

We have developed policies and procedures to determine when markets for our financial assets and liabilities are inactive if the level and volume of activity has declined significantly relative to normal conditions. If markets are determined to be inactive, it may be appropriate to adjust price quotes received. When significant adjustments are required to price quotes or inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs.

Significant judgment may be required to determine whether certain financial instruments measured at fair value are classified as Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions. We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in "Note 17—Fair Value Measurement."

Fair Value Measurement

We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results.

Groups independent of our trading and investing functions participate in the review and validation process. Tasks performed by these groups include periodic verification of fair value measurements to determine if assigned fair values are reasonable, including comparing prices from vendor pricing services to other available market information.

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Our Fair Value Committee ("FVC"), which includes representation from business areas, Risk Management and Finance divisions, provides guidance and oversight to ensure an appropriate valuation control environment. The FVC regularly reviews and approves our fair valuations to ensure that our valuation practices are consistent with industry standards and adhere to regulatory and accounting guidance.

We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for pricing and fair value measurements. The Model Risk Office validates all models and provides ongoing monitoring of their performance.

The fair value governance process is set up in a manner that allows the Chairperson of the FVC to escalate valuation disputes that cannot be resolved by the FVC to a more senior committee called the Valuations Advisory Committee ("VAC") for resolution. The VAC is chaired by the Chief Financial Officer and includes other members of senior management. The VAC is only required to convene to review escalated valuation disputes.

Customer Rewards Reserve

We offer products, primarily credit cards, which include programs that allow members to earn rewards, that can be redeemed for cash (primarily in the form of statement credits), gift cards, airline tickets or merchandise, based on account activity. The amount of rewards that a customer earns varies based on the terms and conditions of the rewards program and product. The majority of our rewards do not expire and there is no limit on the amount of rewards an eligible card member can earn. Customer rewards costs, which we generally record as an offset to interchange income, are driven by various factors, such as card member purchase volume, the terms and conditions of the rewards program and rewards redemption cost. We establish a customer rewards reserve that reflects management's judgment regarding rewards earned that are expected to be redeemed and the estimated redemption cost.

We use financial models to estimate ultimate redemption rates of rewards earned to date by current card members based on historical redemption trends, current enrollee redemption behavior, card product type, year of program enrollment, enrollment tenure and card spend levels. Our current assumption is that the vast majority of all rewards earned will eventually be redeemed. We use a weighted-average redemption cost during the previous twelve months, adjusted as appropriate for recent changes in redemption costs, including mix of rewards redeemed, to estimate future redemption costs. We continually evaluate our reserve and assumptions based on developments in redemption patterns, changes to the terms and conditions of the rewards program and other factors. Changes in the ultimate redemption rate and weighted-average redemption cost have the effect of either increasing or decreasing the reserve through the current period provision by an amount estimated to cover the cost of all rewards earned but not yet redeemed by card members as of the end of the reporting period. We recognized customer rewards expense of $3.7 billion, $3.2 billion and $2.7 billion in 2017, 2016 and 2015, respectively. Our customer rewards liability, which is included in other liabilities on our consolidated balance sheets, totaled $3.9 billion and $3.6 billion as of December 31, 2017 and 2016, respectively.

ACCOUNTING CHANGES AND DEVELOPMENTS

In connection with the enactment of the Tax Act, the SEC issued Staff Accounting Bulletin No. 118, Income Tax Accounting Implications of the Tax Cuts and Jobs Act to express the views of the Staff of the SEC's Division of Corporation Finance regarding application of Accounting Standards Codification Topic 740, Income Taxes, ("Topic 740") in the reporting period that includes the date the Tax Act was signed into law. This bulletin states that the financial statements which include the reporting period in which the Tax Act was signed into law, should reflect the income tax impacts of the Tax Act for which the accounting under Topic 740 is complete. To the extent the accounting under Topic 740 is not complete, but a reasonable estimate of the impacts can be determined, such an estimate should be included in the financial statements as a provisional amount. For any specific tax impacts for which a reasonable estimate cannot be determined, a provisional amount should not be reported and Topic 740 should be applied using the provisions of the tax laws that were in effect immediately before the Tax Act.

The bulletin sets forth a measurement period which begins in the reporting period that includes the date the Tax Act was signed into law and ends when the accounting under Topic 740 is complete, subject to a maximum length of one year. During this measurement period, adjustments to provisional amounts may need to be reflected based on facts and circumstances that existed as of the date the Tax Act was signed into law that, if known, would have affected the income tax impacts initially reported as provisional. Finally, the bulletin requires disclosures for any income tax impacts of the Tax Act that are accounted for under a measurement period approach.

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Under this bulletin, we have determined that we are able to make reasonable estimates for certain effects of the Tax Act for the year ended December 31, 2017. Accordingly, we have recognized provisional amounts for the impacts of the Tax Act based on these reasonable estimates. However, as of the date of this Form 10-K, we are continuing to evaluate the accounting impacts of the Tax Act as we continue to assemble and analyze all the information required to prepare and analyze these effects and await additional guidance from the U.S. Treasury Department, Internal Revenue Service, or other standard-setting bodies. We continue to assess information relating to these amounts, and with respect to the repatriation tax, we continue to assess its application in other jurisdictions. Additionally, we continue to analyze other information and regulatory guidance, and accordingly, we may record additional provisional amounts or adjustments to provisional amounts during the measurement period ending no later than December 2018.

We provide the additional disclosures required by this bulletin in "Note 16—Income Taxes."

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

CAPITAL MANAGEMENT

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

Capital Standards and Prompt Corrective Action

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

In July 2013, the Federal Banking Agencies adopted the Basel III Capital Rule, which, in addition to implementing the Basel III capital framework, also implemented certain Dodd-Frank Act and other capital provisions, and updated the PCA capital framework to reflect the new regulatory capital minimums. The Basel III Capital Rule amended both the Basel I and Basel II Advanced Approaches frameworks, established a new common equity Tier 1 capital requirement and set higher minimum capital ratio requirements. We refer to the amended Basel I framework as the "Basel III Standardized Approach," and the amended Advanced Approaches framework as the "Basel III Advanced Approaches."

At the end of 2012, we met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, we have undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. We entered parallel run under Advanced Approaches on January 1, 2015, during which we are required to calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though we continue to use the Standardized Approach for purposes of meeting regulatory capital requirements.

The Basel III Capital Rule also introduced the supplementary leverage ratio for all Advanced Approaches banking organizations with a minimum requirement of 3.0%. The supplementary leverage ratio compares Tier 1 capital to total leverage exposure, which includes all on-balance sheet assets and certain off-balance sheet exposures, including derivatives and unused commitments. Given that we are in our Basel III Advanced Approaches parallel run, we calculate the ratio based on Tier 1 capital under the Standardized Approach. The minimum requirement for the supplementary leverage ratio became effective as of January 1, 2018. As an Advanced Approaches banking organization, however, we were required to calculate and publicly disclose our supplementary leverage ratio beginning in the first quarter of 2015.

The Market Risk Rule supplements both the Basel III Standardized Approach and the Basel III Advanced Approaches by requiring institutions subject to the Market Risk Rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to the lesser of (i) 10%

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or more of total assets or (ii) $1 billion or more. As of December 31, 2017, the Company and CONA are subject to the Market Risk Rule. See "MD&A—Market Risk Profile" below for additional information.

In October 2017, the Federal Banking Agencies proposed certain limited changes to the Basel III Capital Rule. There is uncertainty regarding how any of the proposed changes may impact the Basel III Standardized Approach and the Basel III Advanced Approaches. Additionally, in December 2017, the Basel Committee finalized certain modifications to the international Basel III capital standards, which would require rulemaking in the United States prior to becoming effective for United States banking organizations. There is uncertainty around which of those changes may be adopted in the United States and how those changes may impact the U.S. capital framework.

Table 13 provides a comparison of our regulatory capital ratios under the Basel III Standardized Approach subject to the applicable transition provisions, the regulatory minimum capital adequacy ratios and the PCA well-capitalized level for each ratio, where applicable, as of December 31, 2017 and 2016.

Table 13: Capital Ratios under Basel III[(1)]

	December 31, 2017			December 31, 2016		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital[(2)]	10.3%	4.5 %	N/A	10.1%	4.5 %	N/A
Tier 1 capital[(3)]	11.8	6.0	6.0 %	11.6	6.0	6.0 %
Total capital[(4)]	14.4	8.0	10.0	14.3	8.0	10.0
Tier 1 leverage[(5)]	9.9	4.0	N/A	9.9	4.0	N/A
Supplementary leverage[(6)]	8.4	N/A	N/A	8.6	N/A	N/A
COBNA:						
Common equity Tier 1 capital[(2)]	14.3	4.5	6.5	12.0	4.5	6.5
Tier 1 capital[(3)]	14.3	6.0	8.0	12.0	6.0	8.0
Total capital[(4)]	16.9	8.0	10.0	14.8	8.0	10.0
Tier 1 leverage[(5)]	12.7	4.0	5.0	10.8	4.0	5.0
Supplementary leverage[(6)]	10.4	N/A	N/A	8.9	N/A	N/A
CONA:						
Common equity Tier 1 capital[(2)]	12.2	4.5	6.5	10.6	4.5	6.5
Tier 1 capital[(3)]	12.2	6.0	8.0	10.6	6.0	8.0
Total capital[(4)]	13.4	8.0	10.0	11.8	8.0	10.0
Tier 1 leverage[(5)]	8.6	4.0	5.0	7.7	4.0	5.0
Supplementary leverage[(6)]	7.7	N/A	N/A	6.9	N/A	N/A

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(1) Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, such as the inclusion of the unrealized gains and losses on securities available for sale included in accumulated other comprehensive income ("AOCI") and adjustments related to intangible assets other than goodwill. The inclusion of AOCI and the adjustments related to intangible assets are phased-in at 60% for 2016, 80% for 2017 and 100% for 2018.

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

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

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

(5) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.

(6) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

The Company exceeded the minimum capital requirements and each of the Banks exceeded the minimum regulatory requirements and were well capitalized under PCA requirements as of both December 31, 2017 and 2016.

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The Basel III Capital Rule requires banks to maintain a capital conservation buffer, composed of common equity Tier 1 capital, of 2.5% above the regulatory minimum ratios. The capital conservation buffer is being phased in over a transition period that commenced on January 1, 2016 and will be fully phased in on January 1, 2019. The capital conservation buffer was 1.25% in 2017.

For banks subject to the Advanced Approaches, including the Company and the Banks, the capital conservation buffer may be supplemented by an incremental countercyclical capital buffer of up to 2.5% (once fully phased-in) composed of common equity Tier 1 capital and set at the discretion of the Federal Banking Agencies. As of December 31, 2017, the countercyclical capital buffer was zero percent in the United States. A determination to increase the countercyclical capital buffer generally would be effective twelve months after the announcement of such an increase, unless the Federal Banking Agencies set an earlier effective date. The countercyclical capital buffer, if set to an amount greater than zero percent, would be subject to the same transition period as the capital conservation buffer, which commenced on January 1, 2016.

For 2017, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for common equity Tier 1 capital, Tier 1 capital and total capital ratios were 5.75%, 7.25% and 9.25%, respectively, for the Company and the Banks. A common equity Tier 1 capital ratio, Tier 1 capital ratio, or total capital ratio below the applicable regulatory minimum ratio plus the applicable capital conservation buffer and the applicable countercyclical buffer (if set to an amount greater than zero percent) might restrict a bank's ability to distribute capital and make discretionary bonus payments. As of December 31, 2017, the Company and each of the Banks were all above the applicable combined thresholds.

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

The following table compares our common equity Tier 1 capital and risk-weighted assets as of December 31, 2017, subject to applicable transition provisions, to our estimated fully phased-in common equity Tier 1 capital and risk-weighted assets, as it applies for Advanced Approaches banks such as ourselves that have not yet exited parallel run. Our estimated common equity Tier 1 capital, risk-weighted assets and common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach are non-GAAP financial measures that we believe provide useful information in evaluating compliance with regulatory capital requirements that are not effective yet. They are calculated based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and are subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators, there could be further changes to the calculation.

Table 14: Regulatory Capital Reconciliations between Basel III Transition to Fully Phased-in

(Dollars in millions)	December 31, 2017
Common equity Tier 1 capital under Basel III Standardized Approach	$ 30,036
Adjustments related to AOCI	(118)
Adjustments related to intangibles	(83)
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized Approach	$ 29,835
Risk-weighted assets under Basel III Standardized Approach[1]	$ 292,225
Adjustments for fully phased-in Basel III Standardized Approach[2]	445
Estimated risk-weighted assets under fully phased-in Basel III Standardized Approach	$ 292,670
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach[3]	10.2 %

(1) Includes credit and market risk-weighted assets.

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

(3) Estimated common equity Tier 1 capital ratio is calculated by dividing estimated common equity Tier 1 capital by estimated risk-weighted assets, which are both calculated under the Basel III Standardized Approach, as it applies

when fully phased-in for Advanced Approaches banks that have not yet exited parallel run.

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

Capital Planning and Regulatory Stress Testing

On June 28, 2017, the Federal Reserve completed its 2017 CCAR and did not object to our proposed capital plan. As a result, in June 2017, the Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018 and the quarterly dividend on our common stock of $0.40 per share. As a condition to not objecting to the capital plan, the Federal Reserve required us to submit a revised capital plan by December 28, 2017 to address certain weaknesses it identified in our capital planning process. On December 24, 2017, using data as of June 30, 2017, we resubmitted our capital plan for the 2017 CCAR process. In connection with the resubmission, the Board of Directors reduced the authorized repurchases of our common stock to up to $1.0 billion for the remaining 2017 CCAR period, which ends June 30, 2018. If the Federal Reserve objects to the resubmitted capital plan, it may restrict subsequent capital distributions.

Dividend Policy and Stock Purchases

On February 1, 2018, our Board of Directors declared a quarterly common stock dividend of $0.40 per share, payable on February 23, 2018 to stockholders of record at the close of the business on February 12, 2018. Our Board of Directors also approved quarterly dividends on our 6.00% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B (“Series B Preferred Stock”), our 6.25% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C (“Series C Preferred Stock”), our 6.70% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D (“Series D Preferred Stock”), our 6.20% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series F (“Series F Preferred Stock”), our 5.20% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G (“Series G Preferred Stock”) and our 6.00% Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H (“Series H Preferred Stock”), payable on March 1, 2018 to stockholders of record at the close of business on February 14, 2018. Based on those declarations, we will pay approximately $196 million in common equity dividends and approximately $52 million in total preferred dividends in the first quarter of 2018. Under the terms of our outstanding preferred stock, our ability to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that we do 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 each quarter of 2017. The following table summarizes the dividends paid per share on our various preferred stock series in each quarter of 2017.

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Table 15: Preferred Stock Dividends Paid Per Share

Series	Description	Issuance Date	Per Annum Dividend Rate	Dividend Frequency	2017 Q4	Q3	Q2	Q1
Series B	6.00% Non-Cumulative	August 20, 2012	6.00%	Quarterly	$15.00	$15.00	$15.00	$15.00
Series C	6.25% Non-Cumulative	June 12, 2014	6.25	Quarterly	15.63	15.63	15.63	15.63
Series D	6.70% Non-Cumulative	October 31, 2014	6.70	Quarterly	16.75	16.75	16.75	16.75
Series E	Fixed-to-Floating Rate Non-Cumulative	May 14, 2015	5.55% through 5/31/2020; 3-mo. LIBOR+ 380 bps thereafter	Semi-Annually through 5/31/2020; Quarterly thereafter	27.75	—	27.75	—
Series F	6.20% Non-Cumulative	August 24, 2015	6.20	Quarterly	15.50	15.50	15.50	15.50
Series G	5.20% Non-Cumulative	July 29, 2016	5.20	Quarterly	13.00	13.00	13.00	13.00
Series H	6.00% Non-Cumulative	November 29, 2016	6.00	Quarterly	15.00	15.00	15.00	15.33

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company ("BHC"), our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our BHC. As of December 31, 2017, funds available for dividend payments from COBNA and CONA were $4.0 billion and $1.6 billion, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

On June 29, 2016, the Board of Directors authorized the repurchase of up to $2.5 billion of shares of our common stock ("2016 Stock Repurchase Program") from the third quarter of 2016 through the end of the second quarter of 2017. Through the end of the second quarter of 2017, we repurchased approximately $2.2 billion of shares of common stock as part of the 2016 Stock Repurchase Program. We repurchased an immaterial amount of our common stock through the end of 2017 as part of the 2017 Stock Repurchase Program.

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

RISK MANAGEMENT

Risk Framework

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

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

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

Our risk framework, which is built around governance, processes and people, consists of the following eight key elements:

Establish Governance Processes, Accountabilities and Risk Appetites

The starting point of our risk framework is the establishment of governance processes, accountabilities and risk appetites. Our Board of Directors and senior management establish the tone at the top regarding the importance of internal control, including standards of conduct and the integrity and ethical values of the Company. Management reinforces expectations at the various levels of the organization. This portion of the framework sets the foundation for the methods for governing risk taking, the interactions within and among the lines of defense, and the risk appetites and tolerance limits for risk taking.

Identify and Assess Risks and Ownership

Identifying and assessing risks and ownership is the beginning of the more detailed day-to-day process of managing risk. This portion of the framework clarifies the importance of strong first-line management and accountability for identifying and assessing risk while specifying the role of the second line to identify and assess risk, particularly when taking on new initiatives.

Develop and Operate Controls, Monitoring and Mitigation Plans

We develop, operate and monitor controls to manage risk within tolerance levels. The first line develops controls to oversee and manage identified risks. Controls may prevent risks from occurring or measure the amount of risk being taken so that the amount may be proactively managed. Whenever possible, plans are implemented to mitigate risks or reduce them to lower levels. The first line leads mitigation, control and monitoring actions. The second line is a consultant on control design when needed.

Test and Detect Control Gaps and Perform Corrective Action

While the first line is principally accountable for taking, controlling and monitoring risk, the second line oversees and monitors first line risk taking, including the effectiveness of first line controls, and the third line independently tests and oversees first and second line risk taking. These activities provide the second and third lines of defense with the ability to reduce the likelihood of unauthorized or unplanned risk taking within the organization. Control gaps are closed by first line corrective action.

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

Escalation is an important component of our risk framework. Use of escalation is encouraged and does not necessarily indicate a failure on the part of first, second, or third line risk management. Through escalation in the first line, decisions requiring judgment can be raised to executives who have the broadest possible context and experience to make challenging decisions. Escalation in the second and third lines of defense can also demonstrate part of their core responsibilities of effective challenge. If appropriate, risks are escalated to the Board of Directors to ensure alignment with the most material risk decisions and/or transparency to the largest risks facing the organization.

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

Capital ultimately is held to protect the company from unforeseen risks or unexpected risk severity. As such, it is important that capital planning processes be well linked with risk management practices to ensure the appropriate capital protections are in place for the safety and soundness of the company. Stress testing and economic capital measurement, both of which incorporate inputs from across the risk spectrum, are key tools for evaluating our capital position and risk adjusted returns.

Support with the Right Culture, Talent and Skills

The right culture, talent and skills are critical to effective risk management. Our risk framework is supported with the right culture that promotes the foundation and values of the risk management organization. Skills necessary to effectively manage risk are reinforced through performance management systems. When needed, risk talent is augmented through recruitment of industry experts as well as training and development of internal associates.

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Enabled by the Right Data, Infrastructure and Programs

Data, infrastructure and programs are key enablers of our risk management processes and practices. These core requirements enable effective risk modeling, efficient first, second and third line risk activity performance, and cross-line interaction.

Risk Appetite

Risk appetite defines the parameters for taking and accepting risks and are used by management and our Board of Directors to make business decisions. Risk appetite refers to the level of risk our business is willing to take in pursuit of our corporate business objectives. The Board of Directors approves our risk appetite including risk appetite statements and associated metrics, Board Notification Thresholds, and Board Limits for each of our eight risk categories. We communicate risk appetite statements, limits and thresholds to the appropriate levels in the organization and monitor adherence. While first line executives manage risk on a day-to-day basis, the Chief Risk Officer provides effective challenge and independent oversight to ensure that risks are within the appetite and specific limits established by the Board of Directors. The Chief Risk Officer reports to the Board of Directors regularly on the nature and level of risk across all eight risk categories. In addition to his broader management responsibilities, our Chief Executive Officer is responsible for developing the strategy and mission of our organization, determining and leading our culture, and reviewing and providing input into our risk appetite.

Risk Categories

We apply our risk framework to protect our company from the eight major categories of risk that we are exposed to through our business activities. Our eight major categories of risk are:

- Compliance Risk: Compliance risk is the risk to current or anticipated earnings or capital arising from violations of laws, rules, or regulations. Compliance risk can also arise from nonconformance with prescribed practices, internal policies and procedures, contractual obligations, or ethical standards that reinforce those laws, rules, or regulations;
- Credit Risk: Credit risk is the risk to current or projected financial condition and resilience arising from an obligor’s failure to meet the terms of any contract with the Company or otherwise perform as agreed;
- Legal Risk: Legal risk is the risk of material adverse impact due to: new and changed laws and regulations; interpretations of law; drafting, interpretation and enforceability of contracts; adverse decisions/consequences arising from litigation or regulatory action; the establishment, management and governance of our legal entity structure; and the failure to seek/follow appropriate Legal counsel when needed;
- Liquidity Risk: Liquidity risk is the risk that the Company will not be able to meet its future financial obligations as they come due, or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period;
- Market Risk: Market risk is the risk that an institution’s earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates, or other market factors;
- Operational Risk: Operational risk is the risk of loss, capital impairment, adverse customer experience, or reputational impact resulting from failure to comply with policies and procedures, failed internal processes or systems, or from external events;
- Reputation Risk: Reputation risk is the risk to market value, recruitment and retention of talented associates and maintenance of a loyal customer base due to the negative perceptions of our internal and external constituents regarding our business strategies and activities; and
- Strategic Risk: Strategic risk is the risk of a material impact on current or anticipated earnings, capital, franchise or enterprise value arising from: (i) the Company’s competitive and market position and evolving forces in the industry that can affect that position; (ii) lack of responsiveness to these conditions; (iii) strategic decisions to change the Company’s scale, market position or operating model; or (iv) failure to appropriately consider implementation risks inherent in the Company’s strategy.

Below we provide an overview of how we manage our eight primary risk categories.

Compliance Risk Management

We recognize that compliance requirements for financial institutions are increasingly complex and that there are heightened expectations from our regulators and our customers. In response, we continuously evaluate the regulatory environment and proactively adjust our compliance risk program to fully address these expectations.

Our Compliance Management Program establishes expectations for determining compliance requirements, assessing the risk of new product offerings, creating appropriate controls and training to address requirements, monitoring for control performance, and independently testing for adherence to compliance requirements. The program also establishes regular compliance reporting to senior business leaders, the executive committee and the Board of Directors.

The Chief Compliance Officer is responsible for establishing and overseeing our Compliance Risk Management Program. Business areas incorporate compliance requirements and controls into their business policies, standards, processes and procedures. They regularly monitor and report on the efficacy of their compliance controls and Corporate Compliance periodically independently tests to validate the effectiveness of business controls.

Credit Risk Management

We try to ensure our credit portfolio is resilient to economic downturns. Our most important tool in this endeavor is sound underwriting. In unsecured consumer loan underwriting, we generally assume that loans will be subject to an environment in which losses are higher than those prevailing at the time of underwriting. In commercial underwriting, we generally require strong cash flow, collateral and covenants and guarantees. In addition to sound underwriting, we continually monitor our portfolio and take steps to collect or work out distressed loans.

The Chief Risk Officer, in conjunction with the Consumer and Commercial Chief Credit Officers, is responsible for establishing credit risk policies and procedures, including underwriting and hold guidelines and credit approval authority, and monitoring credit exposure and performance of our lending-related transactions. These responsibilities are fulfilled by the Chief Consumer Credit Officer and the Chief Commercial Credit Officer who are responsible for evaluating the risk implications of credit strategy and for oversight of credit for both the existing portfolio and any new credit investments. The Chief Consumer Credit Officer and the Chief Commercial Credit Officer have formal approval authority for various types and levels of credit decisions, including individual commercial loan transactions. Division Presidents within each segment are responsible for managing the credit risk within their divisions and maintaining processes to control credit risk and comply with credit policies and guidelines. In addition, the Chief Risk Officer establishes policies, delegates approval authority and monitors performance for non-loan credit exposure entered into with financial counterparties or through the purchase of credit sensitive securities in our investment portfolio.

Our credit policies establish standards in five areas: customer selection, underwriting, monitoring, remediation and portfolio management. The standards in each area provide a framework comprising specific objectives and control processes. These standards are supported by detailed policies and procedures for each component of the credit process. Starting with customer selection, our goal is to generally provide credit on terms that generate above hurdle returns. We use a number of quantitative and qualitative factors to manage credit risk, including setting credit risk limits and guidelines for each of our lines of business. We monitor performance relative to these guidelines and report results and any required mitigating actions to appropriate senior management committees and our Board of Directors.

Legal Risk Management

The General Counsel provides legal evaluation and guidance to the enterprise and business areas and partners with other risk management functions such as Compliance and Internal Audit. This evaluation and guidance is based on an assessment of the type and degree of legal risk associated with the internal business area practices and activities and of the controls the business has in place to mitigate legal risks.

Liquidity Risk Management

The Chief Financial Officer and the Chief Risk Officer, in conjunction with the Chief Market and Liquidity Risk Officer, are responsible for the establishment of liquidity risk management policies and standards for governance and monitoring of liquidity risk at a corporate level. We assess liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation through idiosyncratic, systematic, and combined liquidity stress scenarios. We continuously monitor market and economic conditions to evaluate emerging stress conditions and appropriate

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action plans in accordance with our Contingency Funding Plan. Management reports liquidity metrics to appropriate senior management committees and our Board of Directors no less than quarterly.

We seek to mitigate liquidity risk strategically and tactically. From a strategic perspective, we have acquired and built deposit gathering businesses and significantly reduced our loan to deposit ratio. From a tactical perspective, we have accumulated a sizable liquidity reserve comprised of cash, high-quality, unencumbered securities and committed collateralized credit lines. We also continue to maintain access to secured and unsecured markets through ongoing issuance. This combination of stable and diversified funding sources and our stockpile of liquidity reserves enables us to maintain confidence in our liquidity position.

Market Risk Management

The Chief Financial Officer and the Chief Risk Officer, in conjunction with the Chief Market and Liquidity Risk Officer, are responsible for the establishment of market risk management policies and standards for the governance and monitoring of market risk at a corporate level. Market risk is inherent from the financial instruments associated with our business operations and activities including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. We manage market risk exposure, which is principally driven by balance sheet interest rate risk, centrally and establish quantitative risk limits to monitor and control our exposure.

We recognize that interest rate and foreign exchange risk is inherent in the banking business due to the nature of the assets and liabilities of banks. Banks typically manage the trade-off between near-term earnings volatility and market value volatility by targeting moderate levels of each. In addition to using industry accepted techniques to analyze and measure interest rate and foreign exchange risk, we perform sensitivity analysis to identify our risk exposures under a broad range of scenarios. Investment securities and derivatives are the main levers for the management of interest rate and foreign exchange risk.

The market risk positions for the Company and each of the Banks are calculated separately and in aggregate, and analyzed against pre-established limits. Results are reported to the Asset Liability Committee monthly and to the Risk Committee of the Board of Directors no less than quarterly. Management is authorized to utilize financial instruments as outlined in our policy to actively manage market risk exposure.

Operational Risk Management

We recognize the criticality of managing operational risk on both a strategic and day-to-day basis and that there are heightened expectations from our regulators and our customers. We have implemented appropriate operational risk management policies, standards, processes and controls to enable the delivery of high quality and consistent customer experiences and to achieve business objectives in a controlled manner.

The Chief Operational Risk Officer is responsible for establishing and overseeing our Operational Risk Management Program. In accordance with Basel III Advanced Approaches requirements, the program establishes practices for assessing the operational risk profile and executing key control processes for operational risks. Corporate Operational Risk Management enforces these practices and delivers reporting of operational risk results to senior business leaders, the executive committee and the Board of Directors.

Reputation Risk Management

We recognize that reputation risk is of particular concern for financial institutions and, increasingly, technology companies, in the current environment. Areas of concern have expanded to include company policies, practices and values and, with the growing use of social and digital platforms, public corporations face a new level of scrutiny and channels for activism and advocacy. The heightened expectations of internal and external stakeholders have made corporate culture, values and conduct pressure points for individuals and advocates voicing concerns or seeking change. We manage both strategic and tactical reputation issues and build our relationships with government officials, media, community and consumer advocates, customers, and other constituencies to help strengthen the reputations of both our company and industry. Our actions include implementing pro-customer practices in our business and serving low to moderate income communities in our market area consistent with a quality bank. The Executive Vice President of External Affairs is responsible for managing our overall reputation risk program. Day-to-day activities are controlled by the frameworks set forth in our Reputation Risk Management Policy and other risk management policies.

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Strategic Risk Management

We monitor external market and industry developments to identify potential areas of strategic opportunity or risk. These items provide input for development of the Company's strategy led by the Chief Executive Officer and other senior executives. Through the ongoing development and vetting of the corporate strategy, the Chief Risk Officer identifies and assesses risks associated with the strategy across all risk categories and monitors them throughout the year.

CREDIT RISK PROFILE

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

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, short-term advances on syndication activity (including bridge financing transactions we have underwritten), certain operational cash balances in other financial institutions, foreign exchange transactions and customer overdrafts. We provide additional information on credit risk related to our investment securities portfolio under "MD&A—Consolidated Balance Sheets Analysis—Investment Securities" and credit risk related to derivative transactions in "Note 10—Derivative Instruments and Hedging Activities."

Primary Loan Products

We provide a variety of lending products. Our primary loan products include credit cards, auto, home loans and commercial.

- Credit cards: We originate both prime and subprime credit cards through a variety of channels. Our credit cards generally have variable interest rates. Credit card accounts are primarily underwritten using an automated underwriting system based on predictive models that we have developed. The underwriting criteria, which are customized for individual products and marketing programs, are established based on an analysis of the net present value of expected revenues, expenses and losses, subject to further analysis using a variety of stress conditions. Underwriting decisions are generally based on credit bureau information, including payment history, debt burden and credit scores, such as FICO, and on other factors, such as applicant income. We maintain a credit card securitization program and selectively sell charged-off credit card loans.
- Auto: We originate both prime and subprime auto loans. Customers are acquired through a network of auto dealers and direct marketing. Our auto loans generally have fixed interest rates and loan terms of 75 months or less, but can go up to 84 months. Loan size limits are customized by program and are generally less than $75,000. Similar to credit card accounts, the underwriting criteria are customized for individual products and marketing programs and based on analysis of net present value of expected revenues, expenses and losses, subject to maintaining resilience under a variety of stress conditions. Underwriting decisions are generally based on an applicant's income, estimated debt-to-income ratio, and credit bureau information, along with collateral characteristics such as loan-to-value ("LTV") ratio. We generally retain all of our auto loans, though we have securitized and sold auto loans in the past and may do so in the future.
- Home loans: Most of the existing home loans in our loan portfolio were originated by banks we acquired. We previously originated residential mortgage and home equity loans through our branches, direct marketing and dedicated home loan officers. On November 7, 2017, we announced our decision to cease new originations of residential mortgage and home equity loan products within our Consumer Banking business. We continue to service our existing home loan portfolio. Our primary home loan products included conforming and non-conforming fixed rate and adjustable rate mortgage loans, as well as first and second lien home equity loans and lines of credit. In general, our underwriting policy limits for such loans were:

a maximum LTV ratio of 90% for loans without mortgage insurance;
a maximum LTV ratio of 97% for loans with mortgage insurance or for home equity products;
a maximum debt-to-income ratio of 50%; and
a maximum loan amount of $3 million.

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Our underwriting procedures were intended to verify the income of applicants and obtain appraisals to determine home values. We might, in limited instances, have used automated valuation models to determine home values. Our underwriting standards for conforming loans were designed to meet the underwriting standards required by the government-sponsored enterprises at a minimum, and we sold most of our conforming loans to these enterprises. We generally retained non-conforming mortgages, home equity loans and lines of credit.

- Commercial: We offer a range of commercial lending products, including loans secured by commercial real estate and loans to middle market commercial and industrial companies. Our commercial loans may have a fixed or variable interest rate; however, the majority of our commercial loans have variable rates. Our underwriting standards require an analysis of the borrower's financial condition and prospects, as well as an assessment of the industry in which the borrower operates. Where relevant, we evaluate and appraise underlying collateral and guarantees. We maintain underwriting guidelines and limits for major types of borrowers and loan products that specify, where applicable, guidelines for debt service coverage, leverage, LTV ratio and standard covenants and conditions. We assign a risk rating and establish a monitoring schedule for loans based on the risk profile of the borrower, industry segment, source of repayment, the underlying collateral and guarantees (if any) and current market conditions. Although we generally retain commercial loans, we may syndicate positions for risk mitigation purposes (including bridge financing transactions we have underwritten). In addition, we originate and service multifamily commercial real estate loans which are sold to the government-sponsored enterprises.

Loans Held for Investment Portfolio Composition

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale. Table 16 presents the composition of our portfolio of loans held for investment, including PCI loans, by portfolio segment as of December 31, 2017 and 2016. Table 16 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 $971 million and $1.0 billion as of December 31, 2017 and 2016, respectively.

Table 16: Loans Held for Investment Portfolio Composition

	December 31, 2017		December 31, 2016	
(Dollars in millions)	Loans	% of Total	Loans	% of Total
Credit Card:				
Domestic credit card	$105,293	41.4 %	$97,120	39.6 %
International card businesses	9,469	3.7	8,432	3.4
Total credit card	114,762	45.1	105,552	43.0
Consumer Banking:				
Auto	53,991	21.2	47,916	19.5
Home loan	17,633	6.9	21,584	8.8
Retail banking	3,454	1.4	3,554	1.4
Total consumer banking	75,078	29.5	73,054	29.7
Commercial Banking:				
Commercial and multifamily real estate	26,150	10.3	26,609	10.9
Commercial and industrial	38,025	14.9	39,824	16.2
Total commercial lending	64,175	25.2	66,433	27.1
Small-ticket commercial real estate	400	0.2	483	0.2
Total commercial banking	64,575	25.4	66,916	27.3
Other loans	58	—	64	—
Total loans held for investment	$254,473	100.0%	$245,586	100.0%

We market our credit card products throughout the United States, Canada and the United Kingdom. Our credit card loan portfolio is geographically diversified due to our product and marketing approach, with higher concentrations in California, Texas, New York, Florida, Illinois, Pennsylvania and Ohio.

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Our auto loan portfolio is originated in most regions of the United States with a concentration in Texas, California, Florida, Georgia, Ohio, Louisiana and Illinois. Our home loan portfolio is concentrated in California, New York, Maryland, Virginia, Illinois, New Jersey and Texas. Retail banking includes small business loans and other consumer lending products originated through our branch network with a concentration in New York, Louisiana, Texas, New Jersey, Maryland and Virginia.

Our commercial banking loan portfolio is originated in most regions of the United States with a concentration in the tri-state area of New York, New Jersey and Connecticut, as well as in Texas, California and Louisiana. Our small ticket commercial real estate portfolio, which was originated on a national basis through a broker network, is in a run-off mode.

We provide additional information on the geographic concentration, by loan category, of our loan portfolio in "Note 4—Loans."

Commercial Loans

Table 17 summarizes our commercial loans held for investment portfolio by industry classification as of December 31, 2017 and 2016. Industry classifications below are based on our interpretation of the North American Industry Classification System codes as they pertain to each individual loan.

Table 17: Commercial Loans by Industry

(Percentage of portfolio)	December 31, 2017		December 31, 2016	
Real estate	41	%	40	%
Healthcare	14		14	
Finance and insurance	13		13	
Business services	5		5	
Educational services	4		4	
Public administration	4		4	
Oil and gas	4		4	
Retail trade	3		4	
Construction and land	3		3	
Other	9		9	
Total	100	%	100	%

Purchased Credit-Impaired Loans

Our portfolio of loans includes certain of our consumer and commercial loans obtained in business acquisitions that were recorded at fair value at acquisition and subsequently accounted for using the guidance for accounting for PCI loans and debt securities, which is based upon expected cash flows. These PCI loans totaled $10.8 billion as of December 31, 2017 compared to $15.1 billion as of December 31, 2016.

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" for additional information on PCI loans that are accounted for based on expected cash flows.

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Home Loans

The majority of our home loan portfolio are PCI loans from previous acquisitions, representing 58% and 67% of our total home loan portfolio as of December 31, 2017 and 2016, respectively. The expected cash flows for the PCI loans in our home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield. Charge-offs on these loans are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, PCI loans are not classified as delinquent or nonperforming, as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans.

Table 18 presents the break out of our total home loan portfolio by lien priority for PCI loans and remaining loans.

Table 18: Home Loans—Risk Profile by Lien Priority

	December 31, 2017					
	Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	$6,364	36.1%	$10,054	57.0%	$16,418	93.1 %
2nd lien	994	5.6	221	1.3	1,215	6.9
Total	$7,358	41.7%	$10,275	58.3%	$17,633	100.0%

	December 31, 2016					
	Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	$6,182	28.7%	$14,159	65.5%	$20,341	94.2 %
2nd lien	974	4.5	269	1.3	1,243	5.8
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%

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

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Loan Maturity Profile

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

Table 19: Loan Maturity Schedule

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

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

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

Credit Risk Measurement

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

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

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

Table 20: Credit Score Distribution

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

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

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

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

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

Delinquency Rates

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

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

Table 21: 30+ Day Delinquencies

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

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

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

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

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

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

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

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

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

Table 23: 90+ Day Delinquent Loans Accruing Interest

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

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

Nonperforming Loans and Nonperforming Assets

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

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

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

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

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

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

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

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

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

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

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Net Charge-Offs

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

Table 25: Net Charge-Offs (Recoveries)

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

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

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

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

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Troubled Debt Restructurings

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

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

Table 26: Troubled Debt Restructurings

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

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

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

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

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

Impaired Loans

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

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

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

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

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

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

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

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

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

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

Table 28: Allowance Coverage Ratios

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

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

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

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

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

LIQUIDITY RISK PROFILE

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

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

Table 29: Liquidity Reserves

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

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

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Liquidity Coverage Ratio

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

Borrowing Capacity

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

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

Funding

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

Deposits

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

Table 30: Deposits Composition and Average Deposits Interest Rates

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

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

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

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

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

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

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

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

Short-Term Borrowings and Long-Term Debt

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

Our short-term borrowings include those borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. The short-term borrowings, which consist of federal funds purchased and securities loaned or sold under agreements to repurchase, decreased by $416 million to $576 million as of December 31, 2017 from December 31, 2016.

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

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

Table 32: Long-Term Funding

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

(1) Includes $2.5 billion of securitized debt assumed in the Cabela's acquisition for the year ended December 31, 2017.

Credit Ratings

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

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

Table 33: Senior Unsecured Long-Term Debt Credit Ratings

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

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

Contractual Obligations

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

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Table 34: Contractual Obligations

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

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

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

(3) Other borrowings primarily consists of FHLB advances.

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

MARKET RISK PROFILE

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

Primary Market Risk Exposures

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

Interest Rate Risk

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

Foreign Exchange Risk

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

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

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

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

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

Customer-Related Trading Risk

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

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

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

Market Risk Management

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

Market Risk Measurement

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

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

Net Interest Income Sensitivity

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

Economic Value of Equity

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

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

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

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

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

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Table 35: Interest Rate Sensitivity Analysis

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

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

Limitations of Market Risk Measures

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

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

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SUPPLEMENTAL TABLES

Table A—Loans Held for Investment Portfolio Composition

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

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Table B—Performing Delinquencies

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

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

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

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

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

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Table C—Nonperforming Loans and Other Nonperforming Assets

	December 31,				
(Dollars in millions)	2017	2016	2015	2014	2013
Nonperforming loans held for investment:					
Credit Card:					
International card businesses	$24	$ 42	$ 53	$ 70	$ 88
Total credit card	24	42	53	70	88
Consumer Banking:					
Auto[(1)]	376	223	219	197	194
Home loan	176	273	311	330	376
Retail banking	35	31	28	22	41
Total consumer banking	587	527	558	549	