

CAPITAL ONE FINANCIAL CORP  
Form 10-Q  
May 05, 2015

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

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FORM 10-Q

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

For the quarterly period ended March 31, 2015

OR

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

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

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

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

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

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

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

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

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

As of April 30, 2015, there were 546,424,370 shares of the registrant's Common Stock, par value \$.01 per share, outstanding.



## TABLE OF CONTENTS

	Page
<b>PART I—FINANCIAL INFORMATION</b>	<b>1</b>
<b>Item 1. <u>Financial Statements</u></b>	<b>61</b>
<u>Consolidated Statements of Income</u>	<u>62</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>63</u>
<u>Consolidated Balance Sheets</u>	<u>64</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>65</u>
<u>Consolidated Statements of Cash Flows</u>	<u>66</u>
<u>Notes to Consolidated Financial Statements</u>	<u>67</u>
<u>Note 1—Summary of Significant Accounting Policies</u>	<u>67</u>
<u>Note 2—Discontinued Operations</u>	<u>68</u>
<u>Note 3—Investment Securities</u>	<u>69</u>
<u>Note 4—Loans</u>	<u>76</u>
<u>Note 5—Allowance for Loan and Lease Losses</u>	<u>91</u>
<u>Note 6—Variable Interest Entities and Securitizations</u>	<u>94</u>
<u>Note 7—Goodwill and Intangible Assets</u>	<u>99</u>
<u>Note 8—Deposits and Borrowings</u>	<u>100</u>
<u>Note 9—Derivative Instruments and Hedging Activities</u>	<u>102</u>
<u>Note 10—Stockholders' Equity</u>	<u>108</u>
<u>Note 11—Earnings Per Common Share</u>	<u>110</u>
<u>Note 12—Fair Value Measurement</u>	<u>111</u>
<u>Note 13—Business Segments</u>	<u>122</u>
<u>Note 14—Commitments, Contingencies, Guarantees and Others</u>	<u>124</u>
<b>Item 2. <u>Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&amp;A")</u></b>	<b>1</b>
<u>Introduction</u>	<u>1</u>
<u>Summary of Selected Financial Data</u>	<u>3</u>
<u>Executive Summary and Business Outlook</u>	<u>5</u>
<u>Critical Accounting Policies and Estimates</u>	<u>8</u>
<u>Accounting Changes and Developments</u>	<u>8</u>
<u>Consolidated Results of Operations</u>	<u>9</u>
<u>Business Segment Financial Performance</u>	<u>14</u>
<u>Consolidated Balance Sheets Analysis</u>	<u>24</u>
<u>Off-Balance Sheet Arrangements and Variable Interest Entities</u>	<u>28</u>
<u>Capital Management</u>	<u>28</u>
<u>Risk Management</u>	<u>32</u>
<u>Credit Risk Profile</u>	<u>33</u>
<u>Liquidity Risk Profile</u>	<u>44</u>
<u>Market Risk Profile</u>	<u>48</u>
<u>Supervision and Regulation</u>	<u>50</u>
<u>Forward-Looking Statements</u>	<u>50</u>
<u>Supplemental Tables</u>	<u>53</u>
<u>Glossary and Acronyms</u>	<u>55</u>

Item 3.	<u>Quantitative and Qualitative Disclosures About Market Risk</u>	<u>133</u>
Item 4.	<u>Controls and Procedures</u>	<u>133</u>
<u>PART II—OTHER INFORMATION</u>		<u>134</u>
Item 1.	<u>Legal Proceedings</u>	<u>134</u>
Item 1A.	<u>Risk Factors</u>	<u>134</u>
Item 2.	<u>Unregistered Sales of Equity Securities and Use of Proceeds</u>	<u>134</u>
Item 3.	<u>Defaults Upon Senior Securities</u>	<u>134</u>
Item 4.	<u>Mine Safety Disclosures</u>	<u>134</u>
Item 5.	<u>Other Information</u>	<u>134</u>
Item 6.	<u>Exhibits</u>	<u>134</u>
<u>SIGNATURES</u>		<u>135</u>
<u>EXHIBIT INDEX</u>		<u>136</u>

## INDEX OF MD&amp;A TABLES AND SUPPLEMENTAL TABLES

MD&A Tables:		Page
1	<u>Consolidated Financial Highlights (Unaudited)</u>	<u>3</u>
2	<u>Business Segment Results</u>	<u>6</u>
3	<u>Average Balances, Net Interest Income and Net Interest Margin</u>	<u>10</u>
4	<u>Rate/Volume Analysis of Net Interest Income</u>	<u>11</u>
5	<u>Non-Interest Income</u>	<u>11</u>
6	<u>Non-Interest Expense</u>	<u>12</u>
7	<u>Credit Card Business Results</u>	<u>14</u>
7.1	<u>Domestic Card Business Results</u>	<u>16</u>
7.2	<u>International Card Business Results</u>	<u>18</u>
8	<u>Consumer Banking Business Results</u>	<u>19</u>
9	<u>Commercial Banking Business Results</u>	<u>21</u>
10	<u>Other Category Results</u>	<u>23</u>
11	<u>Investment Securities</u>	<u>25</u>
12	<u>Non-Agency Investment Securities Credit Ratings</u>	<u>25</u>
13	<u>Loans Held for Investment</u>	<u>26</u>
14	<u>Changes in Representation and Warranty Reserve</u>	<u>27</u>
15	<u>Capital Ratios</u>	<u>29</u>
16	<u>Estimated Common Equity Tier 1 Ratio under Fully Phased-In Basel III Standardized Approach</u>	<u>30</u>
17	<u>Loan Portfolio Composition</u>	<u>33</u>
18	Commercial Loans by Industry	<u>34</u>
19	<u>Home Loans - Risk Profile by Lien Priority</u>	<u>35</u>
20	<u>Sensitivity Analysis - Acquired Loans - Home Loan Portfolio</u>	<u>36</u>
21	<u>Credit Score Distribution</u>	<u>36</u>
22	<u>30+ Day Delinquencies</u>	<u>37</u>
23	<u>Aging and Geography of 30+ Day Delinquent Loans</u>	<u>38</u>
24	<u>90+ Day Delinquent Loans Accruing Interest</u>	<u>38</u>
25	<u>Nonperforming Loans and Other Nonperforming Assets</u>	<u>38</u>
26	<u>Net Charge-Offs</u>	<u>40</u>
27	<u>Loan Modifications and Restructurings</u>	<u>41</u>
28	<u>Allowance for Loan and Lease Losses Activity</u>	<u>43</u>
29	<u>Allocation of the Allowance for Loan and Lease Losses</u>	<u>44</u>
30	<u>Liquidity Reserves</u>	<u>45</u>
31	<u>Deposit Composition and Average Deposit Rates</u>	<u>46</u>
32	<u>Contractual Maturity Profile of Outstanding Debt</u>	<u>47</u>
33	<u>Senior Unsecured Debt Credit Ratings</u>	<u>48</u>
34	<u>Interest Rate Sensitivity Analysis</u>	<u>50</u>
Supplemental Table:		
A	<u>Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures</u>	<u>53</u>

Table of Contents

PART I—FINANCIAL INFORMATION

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

This discussion contains forward-looking statements that are based upon management’s current expectations and are subject to significant uncertainties and changes in circumstances. Please review “Forward-Looking Statements” for more information on the forward-looking statements in this Quarterly Report on Form 10-Q (“this Report”). Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in “Part II—Item 1A. Risk Factors” in this Report and in “Part I—Item 1A. Risk Factors” in our 2014 Annual Report on Form 10-K (“2014 Form 10-K”). Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our unaudited consolidated financial statements as of March 31, 2015 included in this Report.

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

INTRODUCTION

We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the “Company”) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of March 31, 2015, our principal subsidiaries included:

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

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

We had total loans held for investment of \$204.0 billion, deposits of \$210.4 billion and stockholders’ equity of \$45.7 billion as of March 31, 2015, compared with total loans held for investment of \$208.3 billion, deposits of \$205.5 billion and stockholders’ equity of \$45.1 billion as of December 31, 2014.

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

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

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



Table of Contents

**Consumer Banking:** Consists of our branch-based lending and deposit gathering activities for consumers and small businesses and national deposit gathering, auto lending and consumer home loan lending and servicing activities.  
**Commercial Banking:** Consists of our lending, deposit gathering and servicing activities provided to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between \$10 million and \$1 billion.

**Recent Acquisitions and Dispositions**

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



Table of Contents

## SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data from our results of operations for the first quarters of 2015 and 2014 and selected comparative balance sheet data as of March 31, 2015 and December 31, 2014. We also provide selected key metrics we use in evaluating our performance. Certain prior period amounts have been recast to conform to the current period presentation.

Table 1: Consolidated Financial Highlights (Unaudited)<sup>(1)</sup>

(Dollars in millions, except as noted)	Three Months Ended March 31,		
	2015	2014	Change
Income statement			
Net interest income	\$4,576	\$4,350	5%
Non-interest income	1,071	1,020	5
Total net revenue	5,647	5,370	5
Provision for credit losses	935	735	27
Non-interest expense:			
Marketing	375	325	15
Amortization of intangibles	110	143	(23 )
Acquisition-related	7	23	(70 )
Operating expenses	2,557	2,441	5
Total non-interest expense	3,049	2,932	4
Income from continuing operations before income taxes	1,663	1,703	(2 )
Income tax provision	529	579	(9 )
Income from continuing operations, net of tax	1,134	1,124	1
Income from discontinued operations, net of tax	19	30	(37 )
Net income	1,153	1,154	—
Dividends and undistributed earnings allocated to participating securities	(6 )	(5 )	20
Preferred stock dividends	(32 )	(13 )	146
Net income available to common stockholders	\$1,115	\$1,136	(2 )
Common share statistics			
Basic earnings per common share:			
Net income from continuing operations	\$2.00	\$1.94	3%
Income from discontinued operations	0.03	0.05	(40 )
Net income per basic common share	\$2.03	\$1.99	2
Diluted earnings per common share:			
Net income from continuing operations	\$1.97	\$1.91	3
Income from discontinued operations	0.03	0.05	(40 )
Net income per diluted common share	\$2.00	\$1.96	2
Weighted average common shares outstanding:			
Basic	550.2	571.0	(4 )
Diluted	557.2	580.3	(4 )
Dividends paid per common share	\$0.30	\$0.30	—
Balance sheet (average balances)			
Loans held for investment	\$205,194	\$193,722	6%
Interest-earning assets	278,427	262,659	6
Total assets	309,401	293,551	5
Interest-bearing deposits	182,998	184,183	(1 )
Total deposits	207,851	205,842	1
Borrowings	46,082	35,978	28
Common equity	44,575	42,006	6

Total stockholders' equity	46,397	42,859	8
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Capital One Financial Corporation  
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Table of Contents

	Three Months Ended March 31,		
(Dollars in millions, except as noted)	2015	2014	Change
Selected performance metrics			
Purchase volume <sup>(2)</sup>	\$57,383	\$47,434	21%
Total net revenue margin <sup>(3)</sup>	8.11	% 8.18	% (7 ) bps
Net interest margin <sup>(4)</sup>	6.57	6.62	(5 )
Return on average assets	1.47	1.53	(6 )
Return on average tangible assets <sup>(5)</sup>	1.54	1.62	(8 )
Return on average common equity <sup>(6)</sup>	9.84	10.53	(69 )
Return on average tangible common equity <sup>(7)</sup>	15.00	16.83	(183 )
Equity-to-assets ratio	15.00	14.60	40
Non-interest expense as a % of average loans held for investment <sup>(8)</sup>	5.94	6.05	(11 )
Efficiency ratio <sup>(9)</sup>	53.99	54.60	(61 )
Effective income tax rate from continuing operations	31.8	34.0	(220 )
Net charge-offs	\$881	\$931	(5)%
Net charge-off rate <sup>(10)</sup>	1.72	% 1.92	% (20 ) bps
Net charge-off rate (excluding Acquired Loans) <sup>(11)</sup>	1.93	2.24	(31 )
	March 31,	December 31,	Change
(Dollars in millions, except as noted)	2015	2014	
Balance sheet (period end)			
Loans held for investment	\$203,978	\$ 208,316	(2)%
Interest-earning assets	275,837	277,849	(1 )
Total assets	306,224	308,167	(1 )
Interest-bearing deposits	185,208	180,467	3
Total deposits	210,440	205,548	2
Borrowings	41,029	48,457	(15 )
Common equity	43,908	43,231	2
Total stockholders' equity	45,730	45,053	2
Credit quality metrics (period end)			
Allowance for loan and lease losses	\$4,405	\$ 4,383	1%
Allowance as a % of loans held for investment ("allowance coverage ratio")	2.16	% 2.10	% 6 bps
Allowance as a % of loans held for investment (excluding Acquired Loans) <sup>(11)</sup>	2.41	2.36	5
30+ day performing delinquency rate	2.32	2.62	(30 )
30+ day performing delinquency rate (excluding Acquired Loans) <sup>(11)</sup>	2.61	2.95	(34 )
30+ day delinquency rate	2.58	2.91	(33 )
30+ day delinquency rate (excluding Acquired Loans) <sup>(11)</sup>	2.90	3.28	(38 )
Capital ratios			
Common equity Tier 1 capital ratio	12.46	% 12.46	% —
Tier 1 risk-based capital ratio	13.22	13.23	(1 )
Total risk-based capital ratio	15.07	15.14	(7 )
Tier 1 leverage ratio	10.66	10.77	(11 )
Tangible common equity ("TCE") ratio <sup>(12)</sup>	9.83	9.49	34
Supplementary leverage ratio <sup>(13)</sup>	9.22	N/A	**
Others			
Employees (in thousands), period end	47.0	46.0	2%

\*\* Change is not meaningful

- As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related right to reclaim cash collateral or obligation to return cash collateral. See “Note 1—Summary of Significant Accounting Policies” for additional information. Prior period results, excluding regulatory ratios, have been recast to conform to this presentation.
- (1) Consists of credit card purchase transactions, net of returns, for the period for both loans classified as held for investment and loans classified as held for sale. Excludes cash advance and balance transfer transactions.
  - (2) Calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.
  - (3) Calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.

Table of Contents

- Calculated based on annualized income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information.
- Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average common equity. Our calculation of return on average common equity may not be comparable to similarly titled measures reported by other companies.
- Calculated based on the annualized sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average TCE. Our calculation of return on average TCE may not be comparable to similarly titled measures reported by other companies. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information.
- Calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.
- Calculated based on non-interest expense for the period divided by total net revenue for the period.
- Calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.
- Calculation of ratio adjusted to exclude Acquired Loans. See “MD&A—Glossary and Acronyms” for the definition of Acquired Loans.
- The TCE ratio is a non-GAAP measure calculated as TCE divided by tangible assets. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for the calculation of this measure and reconciliation to the comparative GAAP measure.
- Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital under the Basel III Standardized Approach divided by total leverage exposure. See “MD&A—Capital Management” for additional information.

**EXECUTIVE SUMMARY AND BUSINESS OUTLOOK**

We reported net income of \$1.2 billion (\$2.00 per diluted common share) on total net revenue of \$5.6 billion for the first quarter of 2015. In comparison, we reported net income of \$1.2 billion (\$1.96 per diluted common share) on total net revenue of \$5.4 billion for the first quarter of 2014.

Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 12.46% as of both March 31, 2015 and December 31, 2014. We formally entered parallel run for Basel III Advanced Approaches on January 1, 2015. See “Capital Management” below for additional information.

On March 26, 2014, we announced that our Board of Directors had authorized the repurchase of up to \$2.5 billion of shares of our common stock (the “2014 Stock Repurchase Program”). As of March 31, 2015, we completed the 2014 Stock Repurchase Program. Additionally, on March 11, 2015, we announced that our Board of Directors had authorized the repurchase of up to \$3.125 billion of shares of our common stock (the “2015 Stock Repurchase Program”) beginning in the second quarter of 2015 through the end of the second quarter of 2016. The Board of Directors also authorized an increase in the quarterly dividend on our common stock from the current level of \$0.30 per share to \$0.40 per share. See “Capital Management” below for additional information.

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

**Total Company**

**Earnings:** Our net income remained flat at \$1.2 billion in the first quarter of 2015 compared to the first quarter of 2014 as the increase in net income from continuing operations was offset by the decrease in net income from discontinued

operations. The increase in net income from continuing operations was driven by (i) an increase in interest income due to growth in our credit card, auto and commercial loan portfolios partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase in non-interest income primarily attributable to higher interchange fees partially offset by lower service charges and other customer-related fees in our Credit Card business. These increases were partially offset by (i) an increase in provision for credit losses due to the change from an allowance release in the first quarter of 2014 to an allowance build in the first quarter of 2015; and (ii) an increase in non-interest expense driven by higher operating and marketing expenses associated with loan growth. The decrease in net income from discontinued operations was due to a smaller release in representation and warranty reserve in the first quarter of 2015.

Loans Held for Investment: Period-end loans held for investment decreased by \$4.3 billion, or 2%, to \$204.0 billion as of March 31, 2015 from December 31, 2014, driven by seasonal paydowns in our credit card loan portfolio in our Credit Card business and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business. Average loans held for investment increased by \$11.5 billion, or 6%, to \$205.2 billion in the first quarter of 2015, compared to the first quarter 2014, primarily due to continued strong auto loan originations

Table of Contents

outpacing the planned run-off of the acquired home loan portfolio in our Consumer Banking business and growth in our commercial and credit card loan portfolios.

**Net Charge-off and Delinquency Statistics:** Our net charge-off rate decreased by 20 basis points to 1.72% in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by lower charge-offs in our Credit Card business and average loan growth. The overall low net charge-off rates compared to our historical levels were largely due to continued economic improvement and portfolio seasoning. Our 30+ day delinquency rate declined to 2.58% as of March 31, 2015 from 2.91% as of December 31, 2014, primarily due to seasonally lower delinquency inventories. We provide additional information on our credit quality metrics below under “Business Segment Financial Performance” and “Credit Risk Profile.”

**Allowance for Loan and Lease Losses:** Our allowance for loan and lease losses increased by \$22 million to \$4.4 billion as of March 31, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by portfolio-specific risks in our commercial loan portfolio in our Commercial Banking business and loan growth in our auto loan portfolio in our Consumer Banking business, partially offset by an allowance release as credit improved in our credit card loan portfolio in our Credit Card business. The allowance coverage ratio increased by 6 basis points to 2.16% as of March 31, 2015 from December 31, 2014.

**Representation and Warranty Reserve:** The mortgage representation and warranty reserve decreased by \$58 million to \$673 million as of March 31, 2015 from December 31, 2014. The decrease in the representation and warranty reserve was primarily driven by claims paid and legal developments, which includes settlements. We recorded a net benefit for mortgage representation and warranty losses of \$18 million (which includes a provision of \$1 million before taxes in continuing operations and a benefit of \$19 million before taxes in discontinued operations) in the first quarter of 2015.

**Business Segment Financial Performance**

Table 2 summarizes our business segment results, which we report based on revenue and income from continuing operations, net of tax, for the first quarters of 2015 and 2014. We provide information on the allocation methodologies used to derive our business segment results under “Note 19—Business Segments” in our 2014 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated generally accepted accounting principles in the United States of America (“U.S. GAAP”) results in “Note 13—Business Segments” of this Report.

Table 2: Business Segment Results

(Dollars in millions)	Three Months Ended March 31,						2014								
	2015			2014			2015			2014					
	Total Net Revenue <sup>(1)</sup>	Net Income (Loss) <sup>(2)</sup>		Total Net Revenue <sup>(1)</sup>	Net Income (Loss) <sup>(2)</sup>		Total Net Revenue <sup>(1)</sup>	Net Income (Loss) <sup>(2)</sup>		Total Net Revenue <sup>(1)</sup>	Net Income (Loss) <sup>(2)</sup>				
Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total		Amount	% of Total		
Credit Card	\$3,482	62	%	\$668	59	%	\$3,310	62	%	\$668	60	%	\$3,310	62	%
Consumer Banking	1,592	28		266	23		1,583	30		330	29		1,583	30	
Commercial Banking <sup>(3)</sup>	575	10		155	14		508	9		137	12		508	9	
Other <sup>(4)</sup>	(2)	—		45	4		(31)	(1)		(11)	(1)		(31)	(1)	
Total from continuing operations	\$5,647	100	%	\$1,134	100	%	\$5,370	100	%	\$1,124	100	%	\$5,370	100	%

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

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

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

(4) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expense that do not directly support the operations of the business segments, and other items as described

in “Note 19—Business Segments” in our 2014 Form 10-K.

Credit Card: Net income from continuing operations in our Credit Card business was flat at \$668 million in the first quarter of 2015, compared to the first quarter of 2014, due to higher net interest income primarily driven by loan growth and higher non-interest income attributable to interchange fees, offset by lower service charges and customer-related fees, higher



## Table of Contents

provision for credit losses and higher non-interest expense. Period-end loans held for investment in our Credit Card business decreased by \$4.1 billion to \$81.8 billion as of March 31, 2015 from December 31, 2014, primarily due to expected seasonal paydowns.

**Consumer Banking:** Our Consumer Banking business generated net income from continuing operations of \$266 million in the first quarter of 2015, compared to net income from continuing operations of \$330 million in the first quarter of 2014. The decrease in net income was primarily attributable to an allowance build in the first quarter of 2015 compared to a release in the first quarter of 2014 and higher non-interest expenses largely driven by higher infrastructure spending in our retail banking business and growth in our auto loan portfolio. The decrease was partially offset by higher net interest income generated by growth in our auto loan portfolio partially offset by the planned run-off of the acquired home loan portfolio. Period-end loans held for investment in our Consumer Banking business decreased by \$60 million to \$71.4 billion as of March 31, 2015 from December 31, 2014, primarily due to the continued run-off of our acquired home loan portfolio mostly offset by growth in the auto loan portfolio.

**Commercial Banking:** Our Commercial Banking business generated net income from continuing operations of \$155 million in the first quarter of 2015 compared to net income from continuing operations of \$137 million in the first quarter of 2014. The increase in net income was primarily due to higher revenue net of related operating expenses driven by the growth in our average commercial loan portfolio, as well as increased fee-based services and products, partially offset by a larger allowance build. Period-end loans held for investment in our Commercial Banking business decreased by \$149 million to \$50.7 billion as of March 31, 2015 from December 31, 2014.

### Business Outlook

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

### Total Company Expectations

We delivered attractive risk-adjusted returns in the first quarter of 2015, and we expect that will continue. For full-year 2015, we expect growth in revenues compared to 2014, driven by growth in average loans. We expect the full-year 2015 efficiency ratio to be at the higher end of a range between 53.5% and 54.5%, or possibly modestly above that range, excluding non-recurring items. We are experiencing very strong Domestic Card growth, and we are likely to increase marketing to take advantage of the opportunities we see to help sustain the current trajectory. While growth opportunities would drive long-term value creation, higher marketing and the higher operating expense of additional volumes would put pressure on our efficiency ratio. We also expect that the ratio will vary, perhaps significantly, from quarter to quarter based on factors such as day count, the timing of growth and associated revenues, and the timing of investments throughout the year.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. Pursuant to our approved 2015 capital plan, we increased our quarterly common stock dividend from \$0.30 per share to \$0.40 per share starting in the second quarter of 2015. We also expect to repurchase up to \$3.125 billion of shares of our common stock pursuant to the 2015 Stock Repurchase Program beginning in the second quarter of 2015 through the second quarter of 2016. The timing and exact amount of any common stock repurchases will depend on various

factors, including market conditions, opportunities for growth, and our capital position and amount of retained earnings. The 2015 Stock Repurchase Program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See “MD&A—Capital Management—Dividend Policy and Stock Purchases” for more information.

## Table of Contents

### Business Segment Expectations

**Credit Card:** In our Domestic Card business, as first quarter delinquency favorability rolls through to charge-offs, we expect quarterly charge-off rates in the lower end of our previously communicated mid-to-high 3% range, perhaps even getting into the low 3% range at the third quarter seasonal low point. Longer term, as new loan balances season, we expect growth to put upward pressure on the charge-off rate. While this impact on the charge-off rate is modest at first, we expect that the impact will grow throughout 2015 and beyond. We expect growth to drive our quarterly charge-off rate to be in the mid-to-high three percent range in the fourth quarter, and higher from there in 2016. In addition, we expect growth to drive allowance additions going forward. In the near term, we also expect favorable credit to drive lower-than-expected past due fees, putting modest pressure on revenue. We believe that our Credit Card business is well-positioned to deliver growth with attractive and resilient returns.

**Consumer Banking:** In our Consumer Banking business, we continue to experience a change in product mix as a result of continued growth in auto originations offset by the planned run-off of our acquired home loan portfolio. While our auto business remains well-positioned, we remain cautious and continue to closely monitor pricing, underwriting practices, used vehicle prices and other competitor and market factors. Returns on new auto originations are lower than returns in the overall auto loan portfolio, but remain resilient and within ranges that support an attractive business. We expect to continue to pursue opportunities in our auto business that are consistent with our long-standing focus on resilience, including adding new relationships with well-qualified dealers and gaining a greater share of originations with existing dealers. We expect persistently low interest rates will continue to pressure returns in our deposit businesses, even if rates begin to rise in 2015.

**Commercial Banking:** Commercial charge-offs, non-performing loans and criticized loans remain strong. While we continue to closely manage credit risk, we do not expect these levels to be sustainable through the cycle. Our Commercial Banking business is well-positioned to navigate a challenging environment, in which intense competition continues to put pressure on growth, margins and returns.

### CRITICAL ACCOUNTING POLICIES AND ESTIMATES

The preparation of financial statements in accordance with U.S. GAAP requires management to make a number of judgments, estimates and assumptions that affect the amount of assets, liabilities, income and expenses on the consolidated financial statements. Understanding our accounting policies and the extent to which we use management judgment and estimates in applying these policies is integral to understanding our financial statements. We provide a summary of our significant accounting policies under “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K.

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

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

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

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

### ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Derivative Assets and Liabilities



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

#### CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the first quarters of 2015 and 2014. Following this section, we provide a discussion of our business segment results. You should read this section together with our "Executive Summary and Business Outlook" where we discuss trends and other factors that we expect will affect our future results of operations.

##### Net Interest Income

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

Table of Contents

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

Table 3: Average Balances, Net Interest Income and Net Interest Margin<sup>(1)</sup>

(Dollars in millions)	Three Months Ended March 31,					
	2015			2014		
	Average Balance	Interest Income/Expense <sup>(2)(3)</sup>	Yield/Rate	Average Balance	Interest Income/Expense <sup>(2)(3)</sup>	Yield/Rate
Assets:						
Interest-earning assets:						
Loans:						
Credit card:						
Domestic credit card	\$74,875	\$ 2,660	14.21 %	\$69,800	\$ 2,478	14.20 %
International credit card	7,811	291	14.90	7,690	319	16.59
Total credit card	82,686	2,951	14.28	77,490	2,797	14.44
Consumer banking	71,595	1,120	6.26	70,836	1,094	6.18
Commercial banking	51,461	415	3.23	45,561	395	3.47
Other	112	54	192.86	133	21	63.16
Total loans, including loans held for sale	205,854	4,540	8.82	194,020	4,307	8.88
Investment securities	63,181	406	2.57	62,124	416	2.68
Cash equivalents and other interest-earning assets	9,392	28	1.19	6,515	30	1.84
Total interest-earning assets	\$278,427	\$ 4,974	7.15	\$262,659	\$ 4,753	7.24
Cash and due from banks	3,099			2,881		
Allowance for loan and lease losses	(4,371 )			(4,306 )		
Premises and equipment, net	3,701			3,838		
Other assets	28,545			28,479		
Total assets	\$309,401			\$293,551		
Liabilities and stockholders' equity:						
Interest-bearing liabilities:						
Deposits	\$182,998	\$ 271	0.59	\$184,183	\$ 276	0.60
Securitized debt obligations	11,563	33	1.14	10,418	38	1.46
Senior and subordinated notes	20,595	79	1.53	14,162	77	2.17
Other borrowings and liabilities	14,721	15	0.41	11,398	12	0.42
Total interest-bearing liabilities	\$229,877	\$ 398	0.69	\$220,161	\$ 403	0.73
Non-interest bearing deposits	24,853			21,659		
Other liabilities	8,274			8,872		
Total liabilities	263,004			250,692		
Stockholders' equity	46,397			42,859		
Total liabilities and stockholders' equity	\$309,401			\$293,551		
Net interest income/spread		\$ 4,576	6.46		\$ 4,350	6.51
Impact of non-interest bearing funding			0.11			0.11
Net interest margin			6.57 %			6.62 %

<sup>(1)</sup> As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related right to reclaim cash collateral or obligation to return cash collateral. See "Note 1—Summary of Significant Accounting Policies" for additional

information. Prior period results have been recast to conform to this presentation.

- (2) Past due fees included in interest income totaled approximately \$354 million and \$359 million in the first quarters of 2015 and 2014, respectively.
- (3) Interest income and interest expense and the calculation of average yields on interest-earning assets and average rates on interest-bearing liabilities include the impact of hedge accounting.

Net interest income increased by \$226 million or 5%, to \$4.6 billion in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by higher average interest-earning assets due to continued strong growth in our auto, commercial and credit

Table of Contents

card loan portfolios. The net interest margin decreased 5 basis points to 6.57% in the first quarter of 2015 primarily attributable to lower yield on average interest earning assets, partially offset by lower cost of funds.

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

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

(Dollars in millions)	Three Months Ended March 31, 2015 vs. 2014		
	Total Variance	Volume	Rate
Interest income:			
Loans:			
Credit card	\$154	\$185	\$(31 )
Consumer banking	26	12	14
Commercial banking	20	47	(27 )
Other	33	(3 )	36
Total loans, including loans held for sale	233	241	(8 )
Investment securities	(10 )	7	(17 )
Cash equivalents and other interest-earning assets	(2 )	9	(11 )
Total interest income	221	257	(36 )
Interest expense:			
Deposits	(5 )	(2 )	(3 )
Securitized debt obligations	(5 )	3	(8 )
Senior and subordinated notes	2	25	(23 )
Other borrowings and liabilities	3	4	(1 )
Total interest expense	(5 )	30	(35 )
Net interest income	\$226	\$227	\$(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<sup>(1)</sup> results in a positive value. When the portion of interest income or interest expense attributable to both volume and rate results in a negative value, the total amount is allocated to volume or rate, depending on which amount is positive.

**Non-Interest Income**

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



Table of Contents

Table 5 displays the components of non-interest income for the first quarters of 2015 and 2014.

Table 5: Non-Interest Income

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Service charges and other customer-related fees	\$437	\$474
Interchange fees, net	496	440
Net other-than-temporary impairment recognized in earnings	(15	) (5
Other non-interest income:		
Provision for mortgage representation and warranty losses <sup>(1)</sup>	(1	) (14
Net gains from the sale of investment securities	2	13
Net fair value gains on free-standing derivatives	10	13
Other	142	99
Total other non-interest income	153	111
Total non-interest income	\$1,071	\$1,020

<sup>(1)</sup> Represents the provision for mortgage representation and warranty losses recorded in continuing operations. For the total impact to the net provision for mortgage representation and warranty losses, including the portion recognized in our consolidated statements of income as a component of discontinued operations, see

“MD&A—Consolidated Balance Sheets Analysis—Table 14: Changes in Representation and Warranty Reserve.” Non-interest income increased by \$51 million, or 5%, to \$1.1 billion in the first quarter of 2015 compared to the first quarter 2014. The main drivers for the increase in non-interest income include (i) an increase in interchange fees due to strong purchase volume in our Credit Card business; (ii) higher other non-interest income driven by growth in our commercial and multifamily real estate business; and (iii) lower provision for mortgage representation and warranty losses. The increase was partially offset by other customer-related fees in our Credit Card business.

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of \$935 million and \$735 million in the first quarters of 2015 and 2014, respectively. The provision for credit losses as a percentage of net interest income was 20.4% and 16.9%, in the first quarters of 2015 and 2014, respectively.

The increase in the provision for credit losses of \$200 million in the first quarter of 2015 compared to the first quarter of 2014, was primarily due to (i) a smaller release in the allowance for loan and lease losses in our credit card portfolio, partially offset by lower net charge-offs; (ii) a larger allowance build and higher net charge-offs due to the growth in our auto loan portfolio; and (iii) a larger allowance build in our commercial loan portfolio attributable to portfolio-specific risks.

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

Non-Interest Expense

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

Table of Contents

Table 6 displays the components of non-interest expense for the first quarters of 2015 and 2014.

Table 6: Non-Interest Expense

(Dollars in millions)	Three Months Ended	
	March 31,	
	2015	2014
Salaries and associate benefits	\$1,211	\$1,161
Occupancy and equipment	435	405
Marketing	375	325
Professional services	296	287
Communications and data processing	202	196
Amortization of intangibles	110	143
Other non-interest expense:		
Collections	84	99
Fraud losses	67	73
Bankcard, regulatory and other fee assessments	109	113
Other	160	130
Other non-interest expense	420	415
Total non-interest expense	\$3,049	\$2,932

Non-interest expense increased by \$117 million, or 4%, to \$3.0 billion in the first quarter of 2015 compared to the first quarter of 2014, primarily driven by (i) higher expenses related to technology and digital investments; (ii) higher marketing and operating expenses attributable to growth in our auto, commercial and credit card loan portfolios; and (iii) higher provision for litigation matters. These increases were partially offset by a decline in the amortization of intangibles.

**Income from Discontinued Operations, Net of Tax**

Income from discontinued operations reflects ongoing costs, which primarily consist of mortgage loan repurchase representation and warranty charges, related to the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”), which was closed in 2007. Income from discontinued operations, net of tax, was \$19 million in the first quarter of 2015, compared to \$30 million in the first quarter of 2014. We recorded a total pre-tax benefit for mortgage representation and warranty reserve of \$19 million (\$12 million net of tax) in the first quarter of 2015, compared to \$47 million (\$30 million net of tax) in the first quarter of 2014.

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

**Income Taxes**

We recorded income tax provisions of \$529 million (31.8% effective income tax rate) and \$579 million (34.0% effective income tax rate) in the first quarters of 2015 and 2014, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the first quarter of 2015, from the first quarter of 2014, was primarily attributable to increased net tax credits and reduced discrete tax expense. We recorded discrete tax expense of \$28 million in the first quarter of 2014 for certain state law changes that required a reduction of deferred tax assets and adjustments for the resolution of certain tax issues and audits. In comparison, we recorded net discrete tax expense of \$2 million in the first quarter of 2015. Our effective income tax rate, excluding the impact of discrete tax items discussed above, was 31.7% and 32.4% in the first quarters of 2015 and 2014, respectively.

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



Table of Contents

**BUSINESS SEGMENT FINANCIAL PERFORMANCE**

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

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

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

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

**Credit Card Business**

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

Our Credit Card business generated net income from continuing operations of \$668 million in both the first quarters of 2015 and 2014.

Table of Contents

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

Table 7: Credit Card Business Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income	\$2,666	\$ 2,525	6 %
Non-interest income	816	785	4
Total net revenue <sup>(1)</sup>	3,482	3,310	5
Provision for credit losses	669	558	20
Non-interest expense	1,776	1,726	3
Income from continuing operations before income taxes	1,037	1,026	1
Income tax provision	369	358	3
Income from continuing operations, net of tax	\$668	\$ 668	—
Selected performance metrics:			
Average loans held for investment <sup>(2)</sup>	\$82,581	\$ 77,502	7
Average yield on loans held for investment <sup>(3)</sup>	14.30 %	14.43 %	(13 )bps
Total net revenue margin <sup>(4)</sup>	16.87	17.08	(21 )
Net charge-offs	\$719	\$ 780	(8)%
Net charge-off rate	3.48 %	4.02 %	(54 )bps
Card loan premium amortization and other intangible accretion <sup>(5)</sup>	\$11	\$ 37	(70)%
Purchased credit card relationship (“PCCR”) intangible amortization	84	98	(14 )
Purchase volume <sup>(6)</sup>	57,383	47,434	21
(Dollars in millions)	March 31,	December 31,	Change
	2015	2014	
Selected period-end data:			
Loans held for investment <sup>(2)</sup>	\$81,754	\$ 85,876	(5)%
30+ day performing delinquency rate	2.91 %	3.24 %	(33 )bps
30+ day delinquency rate	2.97	3.30	(33 )
Nonperforming loan rate	0.08	0.08	—
Allowance for loan and lease losses	\$3,130	\$ 3,204	(2)%
Allowance coverage ratio <sup>(7)</sup>	3.83 %	3.73 %	10 bps

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

(1) our net charge-offs. Total net revenue was reduced by \$147 million and \$163 million in the first quarters of 2015 and 2014, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled \$190 million and \$216 million as of March 31, 2015 and December 31, 2014, respectively.

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

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

(4)

Calculated by dividing annualized total net revenue for the period by average loans held for investment during the period for the specified loan category. Interest income also includes interest income on loans held for sale.

Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans

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

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

Table of Contents

**Net Interest Income:** Net interest income increased by \$141 million, or 6%, to \$2.7 billion in the first quarter of 2015. The increase in net interest income was primarily driven by loan growth in the Domestic Card business.

**Non-Interest Income:** Non-interest income increased by \$31 million, or 4%, to \$816 million in the first quarter of 2015. The increase was primarily attributable to an increase in interchange fees driven by higher purchase volume, partially offset by a decline in service charges and other customer-related fees in our Credit Card business.

**Provision for Credit Losses:** The provision for credit losses increased by \$111 million, or 20%, to \$669 million in the first quarter of 2015. The increase was primarily due to a smaller release in the allowance for loan and lease losses in our Domestic Card business, partially offset by lower net charge-offs across the Credit Card business.

**Non-Interest Expense:** Non-interest expense increased by \$50 million, or 3%, to \$1.8 billion in the first quarter of 2015. The increase was largely due to higher marketing expenses associated with loan growth, partially offset by lower operating expenses and lower PCCR intangible amortization.

**Loans Held for Investment:** Period-end loans held for investment decreased by \$4.1 billion, or 5%, to \$81.8 billion as of March 31, 2015 from December 31, 2014, primarily due to expected seasonal paydowns. Average loans held for investment increased by \$5.1 billion, or 7%, to \$82.6 billion in the first quarter of 2015 compared to first quarter of 2014, primarily due to loan growth in the Domestic Card business.

**Net Charge-off and Delinquency Statistics:** Our net charge-off rate decreased by 54 basis points to 3.48% in the first quarter of 2015 compared to the first quarter of 2014 largely due to loan growth, continued economic improvement and portfolio seasoning. The 30+ day delinquency rate decreased 33 basis points to 2.97% as of March 31, 2015 from December 31, 2014 due to seasonally lower delinquency inventories.

**Domestic Card Business**

Domestic Card generated net income from continuing operations of \$621 million and \$595 million in the first quarters of 2015 and 2014, respectively. Domestic Card accounted for 91% of total net revenues of our Credit Card business in the first quarter of 2015 compared to 89% in the first quarter of 2014. Income attributable to Domestic Card represented 93% of net income for our Credit Card business in the first quarter of 2015, compared to 89% in the first quarter of 2014.

Table of Contents

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

Table 7.1: Domestic Card Business Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income	\$2,421	\$ 2,255	7%
Non-interest income	743	702	6
Total net revenue <sup>(1)</sup>	3,164	2,957	7
Provision for credit losses	610	486	26
Non-interest expense	1,580	1,545	2
Income from continuing operations before income taxes	974	926	5
Income tax provision	353	331	7
Income from continuing operations, net of tax	\$621	\$ 595	4
Selected performance metrics:			
Average loans held for investment <sup>(2)</sup>	\$74,770	\$ 69,810	7
Average yield on loans held for investment <sup>(3)</sup>	14.23	% 14.19	% 4 bps
Total net revenue margin <sup>(4)</sup>	16.93	16.94	(1 )
Net charge-offs	\$664	\$ 700	(5)%
Net charge-off rate	3.55	% 4.01	% (46 )bps
Card loan premium amortization and other intangible accretion <sup>(5)</sup>	\$11	\$ 37	(70)%
PCCR intangible amortization	84	98	(14 )
Purchase volume <sup>(6)</sup>	52,025	44,139	18
(Dollars in millions)	March 31,	December 31,	Change
	2015	2014	
Selected period-end data:			
Loans held for investment <sup>(2)</sup>	\$74,131	\$ 77,704	(5)%
30+ day delinquency rate	2.92	% 3.27	% (35 )bps
Allowance for loan and lease losses	\$2,824	\$ 2,878	(2)%
Allowance coverage ratio <sup>(7)</sup>	3.81	% 3.70	% 11 bps

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

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

(3) Calculated by dividing annualized interest income for the period by average loans held for investment during the period for the specified loan category. Interest income includes interest income on loans held for sale.

(4) Calculated by dividing annualized total net revenue 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.

Represents the net reduction in interest income attributable to the amortization of premiums on purchased loans

(5) accounted for based on contractual cash flows and the accretion of other intangibles associated with the 2012 U.S. card acquisition.

(6)



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

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

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results discussed above are similar to the key factors affecting our total Credit Card business. The primary driver of the increase in net income for our Domestic Card business in the first quarter of 2015, compared to the first quarter of 2014, was higher revenue primarily driven by loan growth partially offset by higher provision for credit losses largely due to a smaller release in the allowance for loan and lease losses.

Table of Contents

## International Card Business

International Card generated net income from continuing operations of \$47 million and \$73 million in the first quarters of 2015 and 2014, respectively. Income attributable to International Card represented 7% of net income for our Credit Card business in the first quarter of 2015, compared to 11% for the first quarter of 2014. The decrease was primarily due to the impact of foreign exchange rates driven by strengthening of the U.S. dollar and higher operating expenses from new and expanded partnerships in Canada partially offset by lower provision for credit losses due to a renegotiated partnership arrangement with a retail partner.

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

Table 7.2: International Card Business Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income	\$245	\$ 270	(9)%
Non-interest income	73	83	(12 )
Total net revenue	318	353	(10 )
Provision for credit losses	59	72	(18 )
Non-interest expense	196	181	8
Income from continuing operations before income taxes	63	100	(37 )
Income tax provision	16	27	(41 )
Income from continuing operations, net of tax	\$47	\$ 73	(36 )
Selected performance metrics:			
Average loans held for investment <sup>(1)</sup>	\$7,811	\$ 7,692	2
Average yield on loans held for investment <sup>(2)</sup>	14.93 %	16.64 %	(171 )bps
Total net revenue margin <sup>(3)</sup>	16.31	18.38	(207 )
Net charge-offs	\$55	\$ 80	(31)%
Net charge-off rate	2.80 %	4.17 %	(137 )bps
Purchase volume <sup>(4)</sup>	\$5,358	\$ 3,295	63 %
(Dollars in millions)	March 31,	December 31,	Change
	2015	2014	
Selected period-end data:			
Loans held for investment <sup>(1)</sup>	\$7,623	\$ 8,172	(7)%
30+ day performing delinquency rate	2.81 %	2.94 %	(13 )bps
30+ day delinquency rate	3.44	3.60	(16 )
Nonperforming loan rate	0.84	0.86	(2 )
Allowance for loan and lease losses	\$306	\$ 326	(6)%
Allowance coverage ratio <sup>(5)</sup>	4.02 %	3.99 %	3 bps

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

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

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

(4)

Consists of international card purchase transactions, net of returns for the period. Excludes cash advance and balance transfer transactions.

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

Table of Contents

## Consumer Banking Business

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

Our Consumer Banking business generated net income from continuing operations of \$266 million and \$330 million in the first quarters of 2015 and 2014, respectively.

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

Table 8: Consumer Banking Business Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income	\$1,434	\$1,433	—
Non-interest income	158	150	5
Total net revenue	1,592	1,583	1
Provision for credit losses	206	140	47
Non-interest expense	970	930	4
Income from continuing operations before income taxes	416	513	(19 )
Income tax provision	150	183	(18 )
Income from continuing operations, net of tax	\$266	\$330	(19 )
Selected performance metrics:			
Average loans held for investment: <sup>(1)</sup>			
Auto	\$38,387	\$32,387	19
Home loan	29,493	34,646	(15 )
Retail banking	3,561	3,630	(2 )
Total consumer banking	\$71,441	\$70,663	1
Average yield on loans held for investment <sup>(2)</sup>	6.26	6.18	8 bps
Average deposits	\$169,593	\$168,676	1%
Average deposit interest rate	0.57	0.57	—
Core deposit intangible amortization	\$22	\$30	(27)%
Net charge-offs	159	148	7
Net charge-off rate	0.89	0.84	5 bps
Net charge-off rate (excluding Acquired Loans)	1.30	1.37	(7 )
Auto loan originations	\$5,185	\$4,727	10 %

Table of Contents

(Dollars in millions)	March 31, 2015	December 31, 2014	Change	
Selected period-end data:				
Loans held for investment: <sup>(1)</sup>				
Auto	\$38,937	\$ 37,824	3	%
Home loan	28,905	30,035	(4	)
Retail banking	3,537	3,580	(1	)
Total consumer banking	\$71,379	\$ 71,439	—	
30+ day performing delinquency rate	2.95	% 3.60	% (65	) bps
30+ day performing delinquency rate (excluding Acquired Loans) <sup>(3)</sup>	4.27	5.34	(107	)
30+ day delinquency rate	3.46	4.23	(77	)
30+ day delinquency rate (excluding Acquired Loans) <sup>(3)</sup>	5.02	6.28	(126	)
Nonperforming loans rate	0.67	0.77	(10	)
Nonperforming loans rate (excluding Acquired Loans) <sup>(3)</sup>	0.98	1.14	(16	)
Nonperforming asset rate <sup>(4)</sup>	0.95	1.06	(11	)
Nonperforming asset rate (excluding Acquired Loans) <sup>(3)</sup>	1.37	1.57	(20	)
Allowance for loan and lease losses	\$826	\$ 779	6	%
Allowance coverage ratio <sup>(5)</sup>	1.16	% 1.09	% 7	bps
Deposits	\$172,502	\$ 168,078	3	%
Loans serviced for others	6,784	6,701	1	

The period-end consumer banking loans held for investments includes Acquired Loans with carrying values of \$22.2 billion and \$23.3 billion as of March 31, 2015 and December 31, 2014, respectively. The average balance of consumer banking loans held for investment includes Acquired Loans of \$22.6 billion and \$27.5 billion in the first quarters of 2015 and 2014, respectively.

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

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

Calculated by dividing nonperforming assets as of the end of the period by the sum of period-end loans held for investment, foreclosed properties and other foreclosed assets.

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

Key factors affecting the results of our Consumer Banking business for the first quarter of 2015, compared to the first quarter of 2014, and changes in financial condition and credit performance between March 31, 2015 and December 31, 2014 include the following:

**Net Interest Income:** Net interest income remained flat at \$1.4 billion in the first quarter of 2015 as the higher net interest income generated by the growth in our auto loan portfolio was offset by the lower net interest income from our home loan portfolio attributable to the planned run-off of the acquired portfolio and margin compression in auto. Consumer Banking yields increased by 8 basis points to 6.3% in the first quarter of 2015 compared to the first quarter of 2014. The increase was driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and the run-off of the acquired home loan portfolio. The increase in our auto loan portfolio in relation to our total consumer banking loan portfolio drove an increase in the total Consumer Banking yield, even as the average yield on auto loans decreased by 74 basis points to 8.2% in the first quarter of 2015. This decrease was primarily attributable to a shift to a higher proportion of prime auto loans and increased competition in the auto business. The average yield on the home loan portfolio increased by 16 basis points to 3.9% in the first quarter of

2015, driven by an increase in expected cash flows as a result of credit improvement on the acquired home loan portfolio.

• Non-Interest Income: Non-interest income increased by \$8 million, or 5%, to \$158 million in the first quarter of 2015, primarily driven by a lower provision for representation and warranty losses in our home loan portfolio.

Provision for Credit Losses: The provision for credit losses increased by \$66 million, or 47%, to \$206 million in the first quarter of 2015, driven by an allowance build and higher net charge-offs due to the growth in our auto loan portfolio, as

Table of Contents

well as the absence of an allowance release in our home loan portfolio that occurred in the first quarter of 2014 due to favorable credit trends.

**Non-Interest Expense:** Non-interest expense increased by \$40 million, or 4%, to \$970 million in the first quarter of 2015, largely due to higher infrastructure spending in our retail banking business and the growth in our auto loan portfolio.

**Loans Held for Investment:** Period-end loans held for investment decreased by \$60 million, or 0.1%, to \$71.4 billion as of March 31, 2015 from December 31, 2014, primarily due to the continued run-off of our acquired home loan portfolio, mostly offset by growth in the auto loan portfolio. Average loans held for investments increased by \$778 million, or 1%, to \$71.4 billion in the first quarter of 2015 compared to the first quarter of 2014, due to the growth in our auto loan portfolio outpacing the run-off of our acquired home loan portfolio.

**Deposits:** Period-end deposits increased by \$4.4 billion, or 3%, to \$172.5 billion as of March 31, 2015 from December 31, 2014, primarily driven by seasonality of our consumer deposits as well as our continued focus on deepening deposit relationships with existing customers and attract new customers.

**Net Charge-off and Delinquency Statistics:** The net charge-off rate increased by 5 basis points to 0.89% in the first quarter of 2015 compared to the first quarter of 2014. The increase in the net charge-off rate reflected the run-off of our acquired home loan portfolio and a greater portion of auto loan portfolio. The 30+ day delinquency rate decreased by 77 basis points to 3.46% as of March 31, 2015 from December 31, 2014 primarily attributable to seasonally lower auto delinquency inventories.

**Commercial Banking Business**

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

Our Commercial Banking business generated net income from continuing operations of \$155 million and \$137 million in the first quarters of 2015 and 2014, respectively.

Table of Contents

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

Table 9: Commercial Banking Business Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income	\$461	\$ 421	10%
Non-interest income	114	87	31
Total net revenue <sup>(1)</sup>	575	508	13
Provision for credit losses	60	40	50
Non-interest expense	272	255	7
Income from continuing operations before income taxes	243	213	14
Income tax provision	88	76	16
Income from continuing operations, net of tax	\$ 155	\$ 137	13
Selected performance metrics:			
Average loans held for investment: <sup>(2)</sup>			
Commercial and multifamily real estate	\$23,120	\$ 20,962	10
Commercial and industrial	27,190	23,541	16
Total commercial lending	50,310	44,503	13
Small-ticket commercial real estate	760	932	(18 )
Total commercial banking	\$51,070	\$ 45,435	12
Average yield on loans held for investment <sup>(1)</sup>	3.22 %	3.47 %	(25 )bps
Average deposits	\$32,845	\$ 31,627	4%
Average deposit interest rate	0.24 %	0.25 %	(1 )bps
Core deposit intangible amortization	\$4	\$ 6	(33)%
Net charge-offs	3	4	(25 )
Net charge-off rate	0.02 %	0.04 %	(2 )bps
(Dollars in millions)	March 31, 2015	December 31, 2014	Change
Selected period-end data:			
Loans held for investment: <sup>(2)</sup>			
Commercial and multifamily real estate	\$22,831	\$ 23,137	(1)%
Commercial and industrial	27,172	26,972	1
Total commercial lending	50,003	50,109	—
Small-ticket commercial real estate	738	781	(6 )
Total commercial banking	\$50,741	\$ 50,890	—
Nonperforming loans rate	0.31 %	0.34 %	(3 )bps
Nonperforming asset rate <sup>(3)</sup>	0.31	0.36	(5 )
Allowance for loan and lease losses	\$444	\$ 395	12%
Allowance coverage ratio <sup>(4)</sup>	0.87 %	0.78 %	9 bps
Deposits	\$32,575	\$ 31,954	2%
Loans serviced for others <sup>(5)</sup>	14,804	14,131	5

<sup>(1)</sup>The average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Annualized interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment. Some of our tax-related commercial



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

(2) The period-end commercial banking loans held for investments includes Acquired Loans with carrying value of \$160 million and \$191 million as of March 31, 2015 and December 31, 2014, respectively. The average balance of commercial banking loans held for investment includes Acquired Loans of \$171 million and \$230 million in the first quarters of 2015 and 2014, respectively.

Table of Contents

- (3) Calculated by dividing nonperforming assets as of the end of the period by the sum of period-end loans held for investment, foreclosed properties and other foreclosed assets.
- (4) Calculated by dividing the allowance for loan and lease losses as of the end of the period by period-end loans held for investment.
- (5) Represents our portfolio of loans serviced for third parties related to our multifamily finance business.

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

**Net Interest Income:** Net interest income increased by \$40 million, or 10%, to \$461 million in the first quarter of 2015. The increase was driven by growth in commercial and multifamily real estate and commercial and industrial loans, partially offset by lower loan yields driven by market and competitive pressures.

**Non-Interest Income:** Non-interest income increased by \$27 million, or 31%, to \$114 million in the first quarter of 2015, primarily driven by increased revenue from fee-based services and products related to our multifamily finance business.

**Provision for Credit Losses:** The provision for credit losses increased by \$20 million, or 50% to \$60 million in the first quarter of 2015, primarily due to a larger allowance build in the first quarter of 2015 attributable to portfolio specific risks, partially offset by a smaller reserve build for unfunded lending commitments.

**Non-Interest Expense:** Non-interest expense increased by \$17 million, or 7%, to \$272 million in the first quarter of 2015, driven by higher operating expenses associated with continued investments in business growth.

**Loans Held for Investment:** Period-end loans held for investment decreased by \$149 million, or less than 1%, to \$50.7 billion as of March 31, 2015 from December 31, 2014 as paydowns offset originations. Average loans held for investment increased by \$5.6 billion, or 12%, to \$51.1 billion in the first quarter of 2015 compared to the first quarter of 2014, driven by loan growth in the commercial and industrial and commercial and multifamily real estate businesses.

**Deposits:** Period-end deposits increased by \$621 million, or 2%, to \$32.6 billion as of March 31, 2015 from December 31, 2014, driven by our strategy to strengthen existing relationships and increase liquidity from commercial customers.

**Net Charge-off and Nonperforming Statistics:** The net charge-off rate decreased by 2 basis points to 0.02% in the first quarter of 2015 compared to the first quarter of 2014. The nonperforming loans rate decreased by 3 basis points to 0.31% as of March 31, 2015 from December 31, 2014.

**Other Category**

Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio and asset/liability management, gains and losses on our investment securities portfolio and certain capital management activities. Other also includes foreign exchange-rate fluctuations on foreign currency-denominated transactions; certain gains and losses on the sale and securitization of loans; unallocated corporate expenses that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges; a portion of the net provision for representation and warranty losses related to continuing operations; certain material items that are non-recurring in nature; and offsets related to certain line-item reclassifications.

Table of Contents

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

Table 10: Other Category Results

(Dollars in millions)	Three Months Ended March 31,		
	2015	2014	Change
Selected income statement data:			
Net interest income (expense) <sup>(1)</sup>	\$ 15	\$(29)	)**
Non-interest income	(17)	(2)	)**
Total net loss	(2)	(31)	(94) %
Benefit for credit losses	0	(3)	(100)
Non-interest expense	31	21	48
Loss from continuing operations before income taxes	(33)	(49)	(33)
Income tax benefit	(78)	(38)	105
Income (loss) from continuing operations, net of tax	\$45	\$(11)	)**

\*\* Change is not meaningful.

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

Net income from continuing operations recorded in the Other category was \$45 million in the first quarter of 2015, compared to a net loss from continuing operations of \$11 million in the first quarter of 2014. The shift to a net profit from a net loss was primarily due to higher income from asset/liability management actions and higher income tax benefit reflecting residual impact of tax allocations, largely driven by a lower effective income tax rate for continuing operations.

**CONSOLIDATED BALANCE SHEETS ANALYSIS**

Total assets decreased by \$1.9 billion to \$306.2 billion as of March 31, 2015 from December 31, 2014 primarily attributable to a decrease of \$4.3 billion in loans held for investment in our Credit Card business due to seasonality and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business. Total liabilities decreased by \$2.6 billion to \$260.5 billion as of March 31, 2015, primarily driven by lower liquidity-related short-term funding due to expected seasonality. Stockholders' equity increased by \$677 million to \$45.7 billion as of March 31, 2015. The increase in stockholders' equity was primarily attributable to our net income of \$1.2 billion in the first quarter of 2015, partially offset by share repurchases under our 2014 Stock Repurchase Program and dividend payments.

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

**Investment Securities**

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS") and commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other investments. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or agencies of the U.S. government represented 87% and 86% of our total investment securities portfolio as of March 31, 2015 and December 31, 2014, respectively.

During the first quarter of 2015, the fair value of our investment portfolio increased by \$832 million, or 1%, to \$64.0 billion as of March 31, 2015 from December 31, 2014. This increase was driven by purchases of securities coupled with lower market interest rates.

We had gross unrealized gains of \$968 million and gross unrealized losses of \$128 million on available-for sale investment securities as of March 31, 2015, compared to gross unrealized gains of \$886 million and gross unrealized losses of \$237 million as of

Table of Contents

December 31, 2014. The increase in gross unrealized gains and the decrease in gross unrealized losses in the first quarter of 2015 were primarily driven by lower interest rates. Of the \$128 million in gross unrealized losses as of March 31, 2015, \$108 million was related to securities that had been in a loss position for more than 12 months. We provide information on other-than-temporary impairment (“OTTI”) recognized in earnings on our investment securities above in “Consolidated Results of Operations—Non-Interest Income.”

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

Table 11: Investment Securities

(Dollars in millions)	March 31, 2015		December 31, 2014	
	Amortized Cost	Fair Value	Amortized Cost	Fair Value
Investment securities available for sale				
U.S. Treasury securities	\$4,411	\$4,440	\$4,114	\$4,118
Corporate debt securities guaranteed by U.S. government agencies	600	598	819	800
RMBS:				
Agency <sup>(1)</sup>	22,344	22,607	21,804	21,995
Non-agency	2,943	3,441	2,938	3,386
Total RMBS	25,287	26,048	24,742	25,381
CMBS:				
Agency <sup>(1)</sup>	3,672	3,676	3,751	3,723
Non-agency	1,711	1,753	1,780	1,796
Total CMBS	5,383	5,429	5,531	5,519
Other ABS <sup>(2)</sup>	2,025	2,028	2,618	2,662
Other securities <sup>(3)</sup>	775	778	1,035	1,028
Total investment securities available for sale	\$38,481	\$39,321	\$38,859	\$39,508

  

(Dollars in millions)	March 31, 2015		December 31, 2014	
	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity				
U.S. Treasury securities	\$198	\$199	\$0	\$0
Agency RMBS	20,484	21,763	20,163	21,210
Agency CMBS	2,559	2,691	2,337	2,424
Total investment securities held to maturity	\$23,241	\$24,653	\$22,500	\$23,634

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

(2) ABS collateralized by credit card loans constituted approximately 59% and 56% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 18% and 16% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively.

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

**Credit Ratings**

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. Approximately 93% of our total investment securities portfolio was rated AA+ or its equivalent, or better, as of both March 31, 2015 and December 31, 2014, while approximately 6% was below investment grade as of both March 31, 2015 and December 31, 2014. We categorize the credit ratings of our investment securities based on the lowest credit rating as

issued by the following rating agencies: Standard & Poor's Ratings Services ("S&P"), Moody's Investors Service ("Moody's") and Fitch Ratings ("Fitch").

Table of Contents

Table 12 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of March 31, 2015 and December 31, 2014.

Table 12: Non-Agency Investment Securities Credit Ratings

(Dollars in millions)	March 31, 2015				December 31, 2014				
	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade <sup>(1)</sup>	Amortized Cost	AAA	Other Investment Grade	Below Investment Grade <sup>(1)</sup>	
Non-agency RMBS	\$2,943	—	% 3	% 97	% \$2,938	—	% 3	% 97	%
Non-agency CMBS	1,711	100	—	—	1,780	100	—	—	
Other ABS	2,025	98	2	—	2,618	90	5	5	
Other securities	775	3	85	12	1,035	2	88	10	

<sup>(1)</sup> Includes a small portion of investment securities that were not rated.

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

**Loans Held for Investment**

Total loans held for investment (“HFI”) consist of unrestricted loans and loans held and restricted in our consolidated securitization trusts. Table 13 summarizes our portfolio of loans held for investment by business segment, net of the allowance for loan and lease losses, as of March 31, 2015 and December 31, 2014.

Table 13: Loans Held for Investment

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	\$81,754	\$ 3,130	\$78,624	\$85,876	\$ 3,204	\$82,672
Consumer Banking	71,379	826	70,553	71,439	779	70,660
Commercial Banking	50,741	444	50,297	50,890	395	50,495
Other	104	5	99	111	5	106
Total	\$203,978	\$ 4,405	\$199,573	\$208,316	\$ 4,383	\$203,933

Period-end loans held for investment decreased by \$4.3 billion, or 2.1%, to \$204.0 billion as of March 31, 2015 from December 31, 2014, driven by seasonal paydowns in our credit card loan portfolio in our Credit Card business and the planned run-off of our acquired home loan portfolio partially offset by growth in the auto loan portfolio in our Consumer Banking business.

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

**Loans Held for Sale**

Loans held for sale, which are carried at lower of cost or fair value, increased by \$705 million, or 113%, to \$1.3 billion as of March 31, 2015, from December 31, 2014, primarily driven by higher originations in our multifamily finance business in our Commercial Banking business and timing of sales of these loans.

**Deposits**

Our deposits represent our largest source of funding for our operations, providing a consistent source of low-cost funds. Total deposits increased by \$4.9 billion to \$210.4 billion as of March 31, 2015 from December 31, 2014. The increase in deposits was primarily driven by seasonality and the growth in our Consumer Banking and Commercial Banking businesses as a result of our continued focus on deepening deposit relationships with existing customers and our continued marketing strategy to attract new business. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield below in “Liquidity Risk Profile.”

Table of Contents**Securitized Debt Obligations**

Securitized debt obligations increased by \$1.1 billion during the first quarter of 2015, to \$12.7 billion as of March 31, 2015 from December 31, 2014 primarily driven by debt issuances of \$1.3 billion, offset by debt maturities of \$175 million during the first quarter of 2015. We provide additional information on our borrowings below in “Liquidity Risk Profile.”

**Other Debt**

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and Federal Home Loan Banks (“FHLB”) advances, totaled \$28.3 billion as of March 31, 2015, of which \$6.7 billion represented short-term borrowings and \$21.6 billion represented long-term debt. Other debt totaled \$36.8 billion as of December 31, 2014, of which \$17.1 billion represented short-term borrowings and \$19.7 billion represented long-term debt.

The decrease in other debt of \$8.5 billion in the first quarter of 2015 was primarily attributable to a net decrease of \$10.4 billion in FHLB advances, partially offset by a net increase of \$1.9 billion in unsecured senior notes. We provide additional information on our borrowings below in “Liquidity Risk Profile” and in “Note 8—Deposits and Borrowings.”

**Mortgage Representation and Warranty Reserve**

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

We have established representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable, including both litigation and non-litigation liabilities. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities totaled \$673 million as of March 31, 2015, compared to \$731 million as of December 31, 2014.

The table below summarizes changes in our representation and warranty reserve in the first quarters of 2015 and 2014. Table 14: Changes in Representation and Warranty Reserve<sup>(1)</sup>

(Dollars in millions)	Three Months Ended	
	2015	2014
Representation and warranty reserve, beginning of period	\$731	\$1,172
Provision (benefit) for mortgage representation and warranty losses:		
Recorded in continuing operations	1	14
Recorded in discontinued operations	(19)	(47)
Total benefit for mortgage representation and warranty losses	(18)	(33)
Net realized losses	(40)	(11)
Representation and warranty reserve, end of period	\$673	\$1,128

<sup>(1)</sup> Reported on our consolidated balance sheets as a component of other liabilities.

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our



reserve as of March 31, 2015, is approximately \$2.1 billion, unchanged from our estimate of \$2.1 billion as of December 31, 2014.

## Table of Contents

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

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

In the ordinary course of business, we are involved in various types of arrangements with limited liability companies, partnerships or trusts that often involve special purpose entities and variable interest entities (“VIE”). Some of these arrangements are not recorded on our consolidated balance sheets or may be recorded in amounts different from the full contract or notional amount of the arrangements, depending on the nature or structure of, and accounting required to be applied to, the arrangement. These arrangements may expose us to potential losses in excess of the amounts recorded on our consolidated balance sheets. Our involvement in these arrangements can take many forms, including securitization and servicing activities, the purchase or sale of mortgage-backed or other asset-backed securities in connection with our home loan portfolio and loans to VIEs that hold debt, equity, real estate or other assets. Our continuing involvement in unconsolidated VIEs primarily consists of certain mortgage loan trusts and community reinvestment and development entities. We provide a discussion of our activities related to these VIEs in “Note 6—Variable Interest Entities and Securitizations.”

### CAPITAL MANAGEMENT

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

#### Capital Standards and Prompt Corrective Action

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

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

At the end of 2012, the Company met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, the Company has undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. Certain provisions of the Final Basel III Capital Rules began to take effect on January 1, 2014 for Advanced Approaches banking organizations, including the Company. The Company entered parallel run under Advanced Approaches on January 1, 2015, during which it will calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though it will continue to use the Basel III Standardized Approach for purposes of meeting regulatory capital requirements. By rule, the parallel run must last at least four consecutive quarters. Therefore, the first quarter of 2016 is the earliest possible date on which the Company would use the Basel III Advanced Approaches framework in calculating its regulatory capital and risk-weighted assets for purposes of risk-based capital requirements. Consistent with the experience of other U.S. banks, it is possible that our parallel run will last longer than the four quarter minimum. Under the Dodd-Frank Act and the Final Basel III Capital Rules, organizations subject to Basel III Advanced Approaches may not hold less capital than would be required under the

Basel III Standardized Approach. Therefore,

28

Capital One Financial Corporation  
(COF)

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Table of Contents

even after we exit parallel run, we will continue to calculate regulatory capital and risk-weighted assets under the Basel III Standardized Approach.

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

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

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

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

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

Table of ContentsTable 15: Capital Ratios<sup>(1)</sup>

	March 31, 2015			December 31, 2014		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital <sup>(2)</sup>	12.46	% 4.50	% N/A	12.46	% 4.00	% N/A
Tier 1 risk-based capital <sup>(3)</sup>	13.22	6.00	6.00 %	13.23	5.50	6.00 %
Total risk-based capital <sup>(4)</sup>	15.07	8.00	10.00	15.14	8.00	10.00
Tier 1 leverage <sup>(5)</sup>	10.66	4.00	N/A	10.77	4.00	N/A
Supplementary leverage ratio <sup>(6)</sup>	9.22	N/A	N/A	N/A	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital <sup>(2)</sup>	12.36	% 4.50	% 6.50 %	11.33	% 4.00	% N/A
Tier 1 risk-based capital <sup>(3)</sup>	12.36	6.00	8.00	11.33	5.50	6.00 %
Total risk-based capital <sup>(4)</sup>	15.66	8.00	10.00	14.57	8.00	10.00
Tier 1 leverage <sup>(5)</sup>	10.22	4.00	5.00	9.64	4.00	5.00
Supplementary leverage ratio <sup>(6)</sup>	8.37	N/A	N/A	N/A	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital <sup>(2)</sup>	12.72	% 4.50	% 6.50 %	12.53	% 4.00	% N/A
Tier 1 risk-based capital <sup>(3)</sup>	12.72	6.00	8.00	12.53	5.50	6.00 %
Total risk-based capital <sup>(4)</sup>	13.78	8.00	10.00	13.57	8.00	10.00
Tier 1 leverage <sup>(5)</sup>	8.83	4.00	5.00	8.90	4.00	5.00
Supplementary leverage ratio <sup>(6)</sup>	7.96	N/A	N/A	N/A	N/A	N/A

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

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

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

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

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

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

Capital One Financial Corporation exceeded Federal Banking Agencies’ minimum capital requirements and the Banks exceeded minimum regulatory requirements and were “well-capitalized” under PCA requirements as of both March 31, 2015 and December 31, 2014. Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, subject to transition provisions, was 12.46% as of both March 31, 2015 and December 31, 2014.

The calculation of our Basel III Standardized Approach common equity Tier 1 capital under the Final Basel III Capital Rules includes adjustments and deductions which are subject to transitions provisions, such as the inclusion of the unrealized gains and losses on available for sale investment securities included in accumulated other comprehensive income (“AOCI”) and adjustments related to intangibles other than goodwill. The inclusion of AOCI and the adjustments related to intangibles are phased-in at 20% for 2014, 40% for 2015, 60% for 2016, 80% for 2017 and 100% for 2018.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of March 31, 2015, calculated based on the Final Basel III Capital Rules, subject to applicable transition provisions, to our estimated common equity Tier 1 capital and risk-weighted assets as of March 31, 2015, calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks like us that have not yet exited parallel run. Our estimated common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach is based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and is subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators during our parallel run, we anticipate that there could be further changes to the calculation.

Table of Contents

Table 16: Estimated Common Equity Tier 1 Capital Ratio under Fully Phased-In Basel III Standardized Approach <sup>(1)</sup>	
(Dollars in millions)	March 31, 2015
Common equity Tier 1 capital under Basel III Standardized	\$29,671
Adjustments related to AOCI <sup>(2)</sup>	(186 )
Adjustments related to intangibles <sup>(2)</sup>	(675 )
Other adjustments <sup>(2)</sup>	—
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized	\$28,810
Risk-weighted assets under Basel III Standardized	\$238,144
Adjustments for fully phased-in Basel III Standardized <sup>(3)</sup>	(282 )
Estimated risk-weighted assets under fully phased-in Basel III Standardized	\$237,862
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized <sup>(4)</sup>	12.1 %

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

(2) Assumes adjustments are fully phased-in.

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

(3) 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. Additional calculation adjustments are likely to apply to the common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach following our exit from Advanced Approaches parallel run.

Under the Final Basel III Capital Rules, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater requirement of the Basel III Standardized Approach and the Basel III Advanced Approaches. See “Part I—Item 1. Business—Supervision and Regulation” in our 2014 Form 10-K for additional information. Based on our business mix, we anticipate that we will need to hold more regulatory capital under the Basel III Advanced Approaches than under the Basel III Standardized Approach to meet our minimum required regulatory capital ratios.

#### Capital Planning and Regulatory Stress Testing

In November 2011, the Federal Reserve finalized capital planning rules applicable to large bank holding companies like us. Under these rules, bank holding companies with consolidated assets of \$50 billion or more must submit a capital plan to the Federal Reserve 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 Comprehensive Capital Analysis and Review (“CCAR cycle”). The bank holding company may take the capital actions in its capital plan if the Federal Reserve provides a non-objection to the plan. On October 17, 2014, the Federal Reserve issued a final rule to modify the regulations for capital planning and stress testing. The final rule changes the annual capital plan and stress test cycle start date from October 1 to January 1, effective for the cycle beginning January 1, 2016. To allow for a transition to the change in timing, the Federal Reserve’s objection or non-objection applied to the capital actions spanning the five quarters starting with the second quarter of 2015 for the 2015 CCAR cycle. Subsequent submissions each would cover a four-quarter period. For additional information on the Final Rule, see “Part I—Item 1. Business—Supervision and Regulation” in our 2014 Form 10-K.

After the Federal Reserve’s non-objection to our 2014 capital plan, we maintained our quarterly dividend of \$0.30 per share for all four quarters in 2014. In addition, our Board of Directors authorized the repurchase of up to \$2.5 billion of shares of common stock through the end of the first quarter of 2015. During 2014, we repurchased approximately \$2.0 billion of common stock and the remaining amount of the 2014 Stock Repurchase Program was completed during the first quarter of 2015.

On January 5, 2015 we submitted our capital plan to the Board of Directors of the Federal Reserve as part of the 2015 CCAR cycle. On March 11, 2015, the Board of Governors of the Federal Reserve publicly disclosed its non-objection to our proposed capital distribution plans submitted pursuant to CCAR. As a result of this non-objection to our capital plan, the Board of Directors also authorized an increase in the quarterly dividend on our common stock from the current level of \$0.30 per share to \$0.40 per share. In addition, the company's Board of Directors has authorized the repurchase of up to \$3.125 billion of shares of the company's common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016.



## Table of Contents

### Dividend Policy and Stock Purchases

On April 30, 2015, our Board of Directors approved an increase in our quarterly common stock dividend from \$0.30 per share to \$0.40 per share, payable on May 21, 2015 to stockholders of record at the close of the business on May 11, 2015. Our Board of Directors also approved quarterly dividends on our Series B Preferred Stock, Series C Preferred Stock, and Series D Preferred Stock payable on June 1, 2015 to stockholders of record at the close of business on May 15, 2015. Based on these declarations, the Company will pay approximately \$219 million in common equity dividends and approximately \$29 million in total preferred dividends in the second quarter of 2015. Under the terms of our outstanding preferred stock, the ability of the Company to pay dividends on, make distributions with respect to, or to repurchase, redeem or acquire its common stock or any preferred stock ranking on parity with or junior to the preferred stock, is subject to restrictions in the event that the Company does not declare and either pay or set aside a sum sufficient for payment of dividends on the preferred stock for the immediately preceding dividend period.

We paid common stock dividends of \$0.30 per share in the first quarter of 2015. We paid preferred stock dividends of \$15.00 per share on the outstanding shares of our 6.00% fixed-rate non-cumulative perpetual preferred stock, Series B (the “Series B Preferred Stock”); \$15.625 per share on the outstanding shares of our 6.25% fixed-rate non-cumulative perpetual preferred stock, Series C (the “Series C Preferred Stock”); and \$22.5194 per share on the outstanding shares of our 6.70% fixed-rate non-cumulative perpetual preferred stock, Series D (the “Series D Preferred Stock”) during the first quarter of 2015.

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our bank holding company. Funds available for dividend payments from COBNA was \$1.3 billion as of March 31, 2015. There can be no assurance that we will declare and pay any dividends to stockholders.

In addition and consistent with our 2015 capital plan, our Board of Directors has authorized the repurchase of up to \$3.125 billion of shares of common stock beginning in the second quarter of 2015 through the end of the second quarter of 2016.

The timing and exact amount of any future common stock repurchases will depend on various factors, including market conditions, opportunities for growth, our capital position and amount of retained earnings. Our stock repurchase program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. For additional information on dividends and stock repurchases, see “Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfer of Funds” in our 2014 Form 10-K.

## RISK MANAGEMENT

### Overview

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

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

management and internal control systems and governance processes are well-designed and working as intended.

32

Capital One Financial Corporation  
(COF)

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Table of Contents

Our risk framework consists of the following eight key elements:

• Establish Governance Processes, Accountabilities, and Risk Appetites

• Identify and Assess Risks and Ownership

• Develop and Operate Controls, Monitoring and Mitigation Plans

• Test and Detect Control Gaps and Perform Corrective Action

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

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

• Support with the Right Culture, Talent and Skills

• Enable with the Right Data, Infrastructure and Programs

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

**CREDIT RISK PROFILE**

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

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

**Loan Portfolio Composition**

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

Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including Acquired Loans, by portfolio segment, as of March 31, 2015 and December 31, 2014. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled \$1.3 billion and \$626 million as of March 31, 2015 and December 31, 2014, respectively.

Table of Contents

Table 17: Loan Portfolio Composition

(Dollars in millions)	March 31, 2015		December 31, 2014	
	Loans	% of Total	Loans	% of Total
<b>Credit Card:</b>				
Domestic credit card <sup>(1)</sup>	\$74,131	36.3 %	\$77,704	37.3 %
International credit card	7,623	3.7	8,172	3.9
Total credit card	81,754	40.0	85,876	41.2
<b>Consumer Banking:</b>				
Auto	38,937	19.1	37,824	18.2
Home loan	28,905	14.2	30,035	14.4
Retail banking	3,537	1.7	3,580	1.7
Total consumer banking	71,379	35.0	71,439	34.3
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	22,831	11.2	23,137	11.1
Commercial and industrial	27,172	13.3	26,972	12.9
Total commercial lending	50,003	24.5	50,109	24.0
Small-ticket commercial real estate	738	0.4	781	0.4
Total commercial banking	50,741	24.9	50,890	24.4
<b>Other:</b>				
Other loans	104	0.1	111	0.1
Total loans held for investment	\$203,978	100.0 %	\$208,316	100.0 %

<sup>(1)</sup> Includes installment loans of \$123 million and \$144 million as of March 31, 2015 and December 31, 2014, respectively.

**Commercial Loans**

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

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

(Percentage of portfolio)	March 31, 2015	December 31, 2014
Real estate <sup>(2)</sup>	41 %	41 %
Finance and insurance	11	12
Oil and gas	7	7
Health care	5	5
Business services	5	5
Public administration	5	5
Construction and land	5	4
Educational services	4	4
Retail trade	4	4
Transportation	4	4
Other	9	9
Total	100 %	100 %

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

<sup>(2)</sup> Primarily consists of loans secured by commercial real estate.



Table of Contents**Acquired Loans**

Our portfolio of loans held for investment includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. See “MD&A—Glossary and Acronyms” for the definition of ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition. Acquired Loans accounted for based on expected cash flows to be collected were \$22.3 billion as of March 31, 2015, compared to \$23.5 billion as of December 31, 2014.

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

**Home Loans**

The substantial majority of our home loan portfolio was acquired in the ING Direct and CCB acquisitions, and they accounted for 99.0% and 98.9% of our total Acquired Loans as of March 31, 2015 and December 31, 2014, respectively. The expected cash flows for our acquired home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield.

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

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

Table 19: Home Loans - Risk Profile by Lien Priority

(Dollars in millions)	Loans		Acquired Loans		Total Home Loans	
	Amount	% of Total	Amount	% of Total	Amount	% of Total
March 31, 2015						
Lien type:						
1st lien	\$5,776	20.0 %	\$21,766	75.3 %	\$27,542	95.3 %
2nd lien	1,015	3.5	348	1.2	1,363	4.7
Total	\$6,791	23.5 %	\$22,114	76.5 %	\$28,905	100.0 %
December 31, 2014						
(Dollars in millions)						
Lien type:						
1st lien	\$5,756	19.2 %	\$22,883	76.2 %	\$28,639	95.4 %
2nd lien	1,038	3.4	358	1.2	1,396	4.6
Total	\$6,794	22.6 %	\$23,241	77.4 %	\$30,035	100.0 %

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

Table of Contents

Table 20 provides a sensitivity analysis of the Acquired Loans in our home loan portfolio as of March 31, 2015. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact results that are presented below.

Table 20: Sensitivity Analysis - Acquired Loans - Home Loan Portfolio<sup>(1)</sup>

(Dollars in millions)	March 31, 2015	Estimated Impact
Expected cash flows	\$26,552	\$(137 )
Accretable yield	4,471	2
Allowance for loan and lease losses	33	139

The estimated impact is the change in the balance as of March 31, 2015 from the hypothetical decline of 10% in the home price index. Changes in the accretable yield would be recognized in interest income in our consolidated statements of income over the life of the loans. Changes in the allowance for loan and lease losses would be recognized immediately in the provision for credit losses in the consolidated statements of income.

**Credit Risk Measurement**

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

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

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

Table 21: Credit Score Distribution

(Percentage of portfolio)	March 31, 2015	December 31, 2014	March 31, 2014
Domestic credit card - Refreshed FICO scores: <sup>(1)</sup>			
Greater than 660	66	% 68	% 68
660 or below	34	32	32
Total	100	% 100	% 100
Auto - At origination FICO scores: <sup>(2)</sup>			
Greater than 660	48	% 47	% 44
621 - 660	17	17	17
620 or below	35	36	39
Total	100	% 100	% 100

<sup>(1)</sup> Credit scores generally represent FICO scores. These scores are obtained from one of the major credit bureaus at origination and are refreshed monthly thereafter. We approximate non-FICO credit scores to comparable FICO



scores for consistency purposes. Balances for which no credit score is available or the credit score is invalid are included in the 660 or below category.

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

Table of Contents

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

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

Delinquency Rates

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

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

Table 22: 30+ Day Delinquencies

	March 31, 2015				December 31, 2014			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
(Dollars in millions)	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
<b>Credit Card:</b>								
Domestic credit card	\$2,163	2.92 %	\$2,163	2.92 %	\$2,538	3.27 %	\$2,538	3.27 %
International credit card	214	2.81	262	3.44	240	2.94	294	3.60
Total credit card	2,377	2.91	2,425	2.97	2,778	3.24	2,832	3.30
<b>Consumer Banking:</b>								
Auto	2,029	5.21	2,149	5.52	2,486	6.57	2,682	7.09
Home loan <sup>(2)</sup>	52	0.18	282	0.97	64	0.21	302	1.01
Retail banking	21	0.60	40	1.12	23	0.64	40	1.11
Total consumer banking <sup>(2)</sup>	2,102	2.95	2,471	3.46	2,573	3.60	3,024	4.23
<b>Commercial Banking:</b>								
Commercial and multifamily real estate	72	0.31	99	0.43	85	0.37	117	0.51
Commercial and industrial	181	0.67	249	0.92	15	0.05	73	0.27
Total commercial lending	253	0.51	348	0.70	100	0.20	190	0.38
Small-ticket commercial real estate	4	0.49	13	1.82	6	0.72	10	1.28
Total commercial banking	257	0.51	361	0.71	106	0.21	200	0.39
<b>Other:</b>								
Other loans	3	3.37	13	12.58	3	2.84	14	12.23
Total <sup>(2)</sup>	\$4,739	2.32	\$5,270	2.58	\$5,460	2.62	\$6,070	2.91

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

(2) Excluding the impact of Acquired Loans, the 30+ day performing delinquency rate for our home loan portfolio, total consumer banking and total loans held for investment was 0.77%, 4.27% and 2.61%, respectively, as of March 31, 2015, and 0.94%, 5.34%, and 2.95%, respectively, as of December 31, 2014. Excluding the impact of Acquired Loans, the 30+ day delinquency rate for our home loan portfolio, total consumer banking and total loans held for

investment was 4.15%, 5.02% and 2.90%, respectively, as of March 31, 2015, and 4.45%, 6.28%, and 3.28%, respectively, as of December 31, 2014.

Table of Contents

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

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

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total Loans <sup>(1)</sup>	%	Amount	% of Total Loans <sup>(1)</sup>	%
Total loan portfolio	\$203,978	100.0	%	\$208,316	100.00	%
Delinquency status:						
30 – 59 days	\$2,384	1.17	%	\$2,841	1.36	%
60 – 89 days	1,196	0.58		1,424	0.68	
90 + days	1,690	0.83		1,805	0.87	
Total	\$5,270	2.58	%	\$6,070	2.91	%
Geographic region:						
Domestic	\$5,008	2.46	%	\$5,776	2.77	%
International	262	0.13		294	0.14	
Total	\$5,270	2.58	%	\$6,070	2.91	%

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

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

Table 24: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total Loans <sup>(1)</sup>	%	Amount	% of Total Loans <sup>(1)</sup>	%
Loan category:						
Credit card	\$1,134	1.39	%	\$1,254	1.46	%
Consumer banking	1	0.00		1	0.00	
Commercial banking	84	0.17		8	0.01	
Total	\$1,219	0.60		\$1,263	0.61	
Geographic region:						
Domestic	\$1,155	0.59	%	\$1,190	0.59	%
International	64	0.85		73	0.90	
Total	\$1,219	0.60		\$1,263	0.61	

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

## Nonperforming Loans and Nonperforming Assets

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



Table of Contents

Table 25 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of March 31, 2015 and December 31, 2014. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value.

Table 25: Nonperforming Loans and Other Nonperforming Assets<sup>(1)</sup>

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total Loans HFI		Amount	% of Total Loans HFI	
Nonperforming loans held for investment:						
Credit Card:						
International credit card	\$64	0.84	%	\$70	0.86	%
Total credit card	64	0.08		70	0.08	
Consumer Banking:						
Auto	120	0.31		197	0.52	
Home loan <sup>(2)</sup>	336	1.16		330	1.10	
Retail banking	25	0.71		22	0.61	
Total consumer banking <sup>(2)</sup>	481	0.67		549	0.77	
Commercial Banking:						
Commercial and multifamily real estate	40	0.18		62	0.27	
Commercial and industrial	106	0.39		106	0.39	
Total commercial lending	146	0.29		168	0.33	
Small-ticket commercial real estate	12	1.62		7	0.96	
Total commercial banking	158	0.31		175	0.34	
Other:						
Other loans	14	13.33		15	13.37	
Total nonperforming loans held for investment <sup>(2)(3)</sup>	\$717	0.35		\$809	0.39	
Other nonperforming assets: <sup>(4)</sup>						
Foreclosed property <sup>(5)</sup>	\$134	0.07	%	\$139	0.06	%
Other assets <sup>(6)</sup>	173	0.08		183	0.09	
Total other nonperforming assets	307	0.15		322	0.15	
Total nonperforming assets	\$1,024	0.50		\$1,131	0.54	

We recognized interest income for loans classified as nonperforming of \$3 million in both the first quarters of 2015 and 2014. Interest income forgone related to nonperforming loans was \$15 million and \$16 million in the first

<sup>(1)</sup> quarters of 2015 and 2014, respectively. Forgone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

Excluding the impact of Acquired Loans, the nonperforming loan ratio for our home loan portfolio, total consumer <sup>(2)</sup> banking and total nonperforming loans held for investment was 4.94%, 0.98% and 0.39%, respectively, as of March 31, 2015, compared to 4.86%, 1.14% and 0.44%, respectively, as of December 31, 2014.

<sup>(3)</sup> Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.55% and 0.62% as of March 31, 2015 and December 31, 2014, respectively.

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

<sup>(5)</sup> Includes foreclosed properties related to Acquired Loans of \$107 million and \$101 million as of March 31, 2015 and December 31, 2014, respectively.

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



Table of Contents

## Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine are uncollectible, net of recovered amounts. We exclude accrued and unpaid finance charges and fees and fraud losses from charge-offs. Net charge-offs are recorded as a reduction to the allowance for loan and lease losses and subsequent recoveries of previously charged-off amounts are credited to the allowance for loan and lease losses. Costs incurred 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. Our charge-off policy for loans varies based on the loan type. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for information on our charge-off policy for each of our loan categories.

Table 26 presents our net charge-off amounts and rates, by portfolio segment, in the first quarters of 2015 and 2014.

Table 26: Net Charge-Offs

(Dollars in millions)	Three Months Ended March 31,			
	2015		2014	
	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
<b>Credit Card:</b>				
Domestic credit card	\$664	3.55 %	\$700	4.01 %
International credit card	55	2.80	80	4.17
Total credit card	719	3.48	780	4.02
<b>Consumer Banking:</b>				
Auto	148	1.55	134	1.66
Home loan <sup>(2)</sup>	2	0.03	5	0.06
Retail banking	9	0.96	9	0.95
Total consumer banking <sup>(2)</sup>	159	0.89	148	0.84
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	(2)	(0.03)	1	0.01
Commercial and industrial	4	0.05	2	0.03
Total commercial lending	2	0.01	3	0.02
Small-ticket commercial real estate	1	0.47	1	0.67
Total commercial banking	3	0.02	4	0.04
<b>Other:</b>				
Other loans	0	1.56	(1)	(0.68)
Total net charge-offs <sup>(2)</sup>	\$881	1.72	\$931	1.92
Average loans held for investment	\$205,194		\$193,722	
Average loans held for investment (excluding Acquired Loans)	182,421		165,962	

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

Excluding the impact of Acquired Loans, the net charge-off rates for our home loan portfolio, total consumer banking and total loans held for investment were 0.11%, 1.30% and 1.93%, respectively, for the three months ended March 31, 2015, compared to 0.29%, 1.37% and 2.24%, respectively, for the three months ended March 31, 2014.

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



Table of Contents

## Loan Modifications and Restructurings

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

Table 27 presents our recorded investment of loans modified in TDRs as of March 31, 2015 and December 31, 2014. It excludes loan modifications that do not meet the definition of a TDR and Acquired Loans accounted for based on expected cash flows, which we track and report separately.

Table 27: Loan Modifications and Restructurings

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total Modifications	%	Amount	% of Total Modifications	%
Modified and restructured loans:						
Credit card	\$673	41.0	%	\$692	41.9	%
Consumer banking:						
Auto	453	27.5		435	26.3	
Home loan	219	13.3		218	13.2	
Retail banking	36	2.2		35	2.1	
Total consumer banking	708	43.0		688	41.6	
Commercial banking	263	16.0		272	16.5	
Total	\$1,644	100.0	%	\$1,652	100.0	%
Status of modified and restructured loans:						
Performing	\$1,198	72.9	%	\$1,203	72.8	%
Nonperforming	446	27.1		449	27.2	
Total	\$1,644	100.0	%	\$1,652	100.0	%

The majority of our credit card TDRs involve reducing the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. We determine the effective interest rate for purposes of measuring impairment on modified loans that involve a reduction and are considered to be a TDR based on the interest rate in effect immediately prior to the loan entering the modification program. In some cases, the interest rate on a credit card account is automatically increased due to non-payment, late payment or similar events. In all cases, we cancel the customer's available line of credit on the credit card. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, with the amount of any loan outstanding reflected in the appropriate delinquency category. The loan amount may then be charged off in accordance with our standard charge-off policy.

In the Consumer Banking business, the majority of our modified loans receive an extension, while a portion receive an interest rate reduction or 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 modified loans receive an extension, with a portion of these loans receiving an interest rate reduction. The impairment on modified commercial loans is generally determined based on the underlying collateral value. We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in "Note 4—Loans."

## Impaired Loans

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



Table of Contents

Impaired loans, including TDRs, totaled \$1.9 billion as of both March 31, 2015 and December 31, 2014. Loans modified in TDRs accounted for \$1.6 billion and \$1.7 billion of impaired loans as of March 31, 2015 and December 31, 2014, 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.”

**Allowance for Loan and Lease Losses**  
Our allowance for loan and lease losses represents management’s best estimate of incurred loan and lease credit losses inherent in our held for investment portfolio as of each balance sheet date. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses under “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K.

Our allowance for loan and lease losses increased by \$22 million to \$4.4 billion as of March 31, 2015 from December 31, 2014. The allowance coverage ratio increased to 2.16% as of March 31, 2015, from 2.10% as of December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by portfolio-specific risks in our commercial loan portfolio in our Commercial Banking business and loan growth in our auto loan portfolio in our Consumer Banking business, partially offset by an allowance release as credit improved in our credit card loan portfolio in our Credit Card business.

Table 28 presents changes in our allowance for loan and lease losses for the first quarters of 2015 and 2014, and details the provision for credit losses recognized in our consolidated statements of income and charge-offs and recoveries by portfolio segment.

Table of Contents

Table 28: Allowance for Loan and Lease Losses Activity

(Dollars in millions)	Three Months Ended		
	March 31,		
	2015	2014	
Balance at beginning of period	\$4,383	\$4,315	
Provision for credit losses <sup>(1)</sup>	927	723	
Charge-offs:			
Credit Card:			
Domestic credit card	(924 )	(964 )	
International credit card	(98 )	(131 )	
Total credit card	(1,022 )	(1,095 )	
Consumer Banking:			
Auto	(233 )	(205 )	
Home loan	(4 )	(11 )	
Retail banking	(13 )	(15 )	
Total consumer banking	(250 )	(231 )	
Commercial Banking:			
Commercial and multifamily real estate	—	(2 )	
Commercial and industrial	(7 )	(4 )	
Total commercial lending	(7 )	(6 )	
Small-ticket commercial real estate	(2 )	(1 )	
Total commercial banking	(9 )	(7 )	
Other:			
Other loans	(3 )	(2 )	
Total charge-offs	(1,284 )	(1,335 )	
Recoveries:			
Credit Card:			
Domestic credit card	260	264	
International credit card	43	51	
Total credit card	303	315	
Consumer Banking:			
Auto	85	71	
Home loan	2	6	
Retail banking	4	6	
Total consumer banking	91	83	
Commercial Banking:			
Commercial and multifamily real estate	2	1	
Commercial and industrial	3	2	
Total commercial lending	5	3	
Small-ticket commercial real estate	1	—	
Total commercial banking	6	3	
Other:			
Other loans	3	3	
Total recoveries	403	404	
Net charge-offs	(881 )	(931 )	
Other changes <sup>(2)</sup>	(24 )	(9 )	
Balance at end of period	\$4,405	\$4,098	
Allowance for loan and lease losses as a percentage of loans held for investment	2.16	% 2.12	%

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- The total provision for credit losses reported in our consolidated statements of income consists of a provision for loan and lease losses and a provision for unfunded lending commitments. This table only presents the provision for
- (1) loan and lease losses and does not include the provision for unfunded lending commitments of \$8 million and \$12 million in the first quarters of 2015 and 2014, respectively.
- (2) Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

Table of Contents

Table 29 presents an allocation of our allowance for loan and lease losses by portfolio segment as of March 31, 2015 and December 31, 2014.

Table 29: Allocation of the Allowance for Loan and Lease Losses

(Dollars in millions)	March 31, 2015		December 31, 2014	
	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
<b>Credit Card:</b>				
Domestic credit card	\$2,824	3.81 %	\$2,878	3.70 %
International credit card	306	4.02	326	3.99
Total credit card	3,130	3.83	3,204	3.73
<b>Consumer Banking:</b>				
Auto	697	1.79	661	1.75
Home loan <sup>(1)</sup>	68	0.23	62	0.21
Retail banking	61	1.74	56	1.58
Total consumer banking <sup>(1)</sup>	826	1.16	779	1.09
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	160	0.70	155	0.67
Commercial and industrial	275	1.01	229	0.85
Total commercial lending	435	0.87	384	0.77
Small-ticket commercial real estate	9	1.24	11	1.43
Total commercial banking	444	0.87	395	0.78
<b>Other:</b>				
Other loans	5	4.48	5	4.68
Total allowance for loan and lease losses	\$4,405	2.16	\$4,383	2.10
<b>Total allowance coverage ratios:</b>				
Period-end loans held for investment	\$203,978	2.16	\$208,316	2.10
Period-end loans held for investment (excluding Acquired Loans)	181,644	2.41	184,816	2.36
Nonperforming loans <sup>(2)</sup>	717	614.18	809	541.86
<b>Allowance coverage ratios by loan category:<sup>(3)</sup></b>				
Credit card (30+ day delinquent loans)	2,425	129.08	2,832	113.13
Consumer banking (30+ day delinquent loans)	2,471	33.43	3,024	25.76
Commercial banking (nonperforming loans)	158	281.66	175	225.86

Excluding the impact of Acquired Loans, the coverage ratios for our home loan portfolio and total consumer

<sup>(1)</sup> banking were 0.51% and 1.61%, respectively, as of March 31, 2015, compared to 0.52% and 1.56%, respectively, as of December 31, 2014.

The allowance for loan and lease losses as a percentage of nonperforming loans, excluding the allowance for loan

<sup>(2)</sup> and lease losses related to our domestic credit card loans, was 220.39% and 186.07% as of March 31, 2015 and December 31, 2014, respectively.

<sup>(3)</sup> Calculated based on the total allowance for loan and lease losses divided by the outstanding balance of loans within the specified loan category.

**LIQUIDITY RISK PROFILE**

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



Table of Contents

Table 30 below presents the composition of our liquidity reserves as of March 31, 2015 and December 31, 2014.

Table 30: Liquidity Reserves

(Dollars in millions)	March 31, 2015	December 31, 2014
Cash and cash equivalents	\$8,891	\$7,242
Investment securities available for sale, at fair value	39,321	39,508
Investment securities held to maturity, at fair value	24,653	23,634
Total investment securities portfolio <sup>(1)(2)</sup>	63,974	63,142
FHLB borrowing capacity secured by loans	28,389	29,547
Outstanding FHLB advances and letters of credit secured by loans	(7,268 )	(17,720 )
Outstanding FHLB advances and letters of credit secured by securities <sup>(3)</sup>	(4 )	(4 )
Securities encumbered for Public Funds and others	(10,998 )	(10,627 )
Total liquidity reserves	\$82,984	\$71,580

(1) The weighted average life of our securities was approximately 5.4 years and 5.7 years as of March 31, 2015 and December 31, 2014, respectively.

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

(2) available for sale with a fair value of \$3.0 billion and \$3.5 billion as of March 31, 2015 and December 31, 2014, respectively. We also pledged securities held to maturity with a carrying value of \$9.1 billion and \$9.0 billion as of March 31, 2015 and December 31, 2014, respectively.

(3) As of March 31, 2015, we pledged \$13 million of securities available for sale to secure our FHLB borrowing capacity.

Our liquidity reserves increased by \$11.4 billion, or 16%, in the first quarter of 2015, to \$83.0 billion as of March 31, 2015, from December 31, 2014. This increase was primarily attributable to lower short-term FHLB advances as we experienced a seasonal drop in loan balances. See “MD&A—Risk Management” in our 2014 Form 10-K for additional information on our management of liquidity risk.

In September 2014, the Federal Banking Agencies issued final rules implementing the Basel III LCR in the United States (the “Final LCR Rule”). The Final LCR Rule applies to institutions with \$250 billion or more in total consolidated assets or \$10 billion or more in total consolidated on-balance sheet foreign exposure, and their respective consolidated subsidiary depository institutions with \$10 billion or more in total consolidated assets. The LCR is calculated by dividing the amount of an institution’s high quality, unencumbered liquid assets, as defined and calculated in accordance with the haircuts and limitations of the LCR rules, by its estimated net cash outflow, which are determined by applying assumed outflow factors in the LCR rules.

The Final LCR Rule phases-in the minimum LCR standard as follows: 80% by January 1, 2015; 90% by January 1, 2016; and 100% by January 1, 2017 and thereafter. The Final LCR Rule came into effect in January 2015 and requires us to calculate the LCR as of the last business day of each month from January 2015 until July 2016, and then on a daily basis thereafter. At March 31, 2015, 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.

#### Funding

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





Table of Contents

## Deposits

Table 31 provides a comparison of the composition of our deposits, average balances, interest expense and average deposit rates for the first quarter of 2015 and full year of 2014.

Table 31: Deposit Composition and Average Deposit Rates

(Dollars in millions)	Three Months Ended March 31, 2015					Average Deposit Rate	
	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate		
Non-interest bearing accounts	\$25,232	\$24,853	N/A	12.0	%	N/A	
Interest-bearing checking accounts <sup>(1)</sup>	43,183	42,309	\$51	20.3		0.48	%
Saving deposits <sup>(2)</sup>	133,059	131,580	191	63.3		0.58	
Time deposits less than \$100,000	5,712	5,885	17	2.8		1.12	
Total core deposits	207,186	204,627	259	98.4		0.51	
Time deposits of \$100,000 or more	2,197	2,211	11	1.1		1.96	
Foreign time deposits <sup>(3)</sup>	1,057	1,013	1	0.5		0.34	
Total deposits	\$210,440	\$207,851	\$271	100.0	%	0.52	
	Twelve Months Ended December 31, 2014						
(Dollars in millions)	Period End Balance	Average Balance	Interest Expense	% of Average Deposits	Average Deposit Rate		
Non-interest bearing accounts	\$25,081	\$24,639	N/A	12.0	%	N/A	
Interest-bearing checking accounts <sup>(1)</sup>	41,022	41,702	\$204	20.3		0.49	%
Saving deposits <sup>(2)</sup>	130,156	129,868	752	63.1		0.58	
Time deposits less than \$100,000	6,051	5,856	75	2.8		1.29	
Total core deposits	202,310	202,065	1,031	98.2		0.51	
Time deposits of \$100,000 or more	2,261	2,560	53	1.3		2.07	
Foreign time deposits <sup>(3)</sup>	977	1,050	4	0.5		0.34	
Total deposits	\$205,548	\$205,675	\$1,088	100.0	%	0.53	

(1) Includes Negotiable Order of Withdrawal (“NOW”) accounts.

(2) Includes Money Market Deposit Accounts (“MMDA”).

(3) Substantially all of our foreign time deposits were greater than \$100,000 as of both March 31, 2015 and December 31, 2014.

Our deposits include brokered deposits, which we obtained through the use of third-party intermediaries. Those brokered deposits are reported as saving deposits and time deposits in the above table and totaled \$5.0 billion and \$5.1 billion as of March 31, 2015 and December 31, 2014, respectively.

The Federal Deposit Insurance Corporation (“FDIC”) limits the use of brokered deposits to “well-capitalized” insured depository institutions and, with a waiver from the FDIC, to “adequately capitalized” institutions. COBNA and CONA were “well-capitalized,” as defined under the federal banking regulatory guidelines, as of both March 31, 2015 and December 31, 2014, and therefore were permitted to maintain brokered deposits.

## 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 obligation transactions, 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.

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

purchased and securities loaned or sold under agreements to repurchase, and short-term FHLB advances, decreased by \$10.4 billion to \$6.7 billion as of March 31,

46

Capital One Financial Corporation  
(COF)

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Table of Contents

2015 from December 31, 2014. This decrease reflects \$11.9 billion in payoffs of FHLB advances, partially offset by \$1.4 billion in new FHLB advances during the first quarter of 2015, primarily driven by lower liquidity-related short-term funding due to expected seasonality.

Our long-term debt, which consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, increased by \$3.0 billion, to \$34.3 billion as of March 31, 2015 from December 31, 2014. The increase was primarily attributable to net increases of \$1.9 billion in unsecured notes and \$1.1 billion in securitized debt obligations.

Table 32 displays the maturity profile, based on contractual maturities, of our short-term borrowings and long-term debt including securitized debt obligations, senior and subordinated notes and other borrowings as of March 31, 2015, and the outstanding balances as of December 31, 2014.

Table 32: Contractual Maturity Profile of Outstanding Debt

(Dollars in millions)	March 31, 2015						Total	December 31, 2014	
	Up to 1 Year	> 1 Year to 2 Years	> 2 Years to 3 Years	> 3 Years to 4 Years	> 4 Years to 5 Years	> 5 Years			
Short-term borrowings:									
Federal funds purchased and securities loaned or sold under agreements to repurchase	\$933	\$—	\$—	\$—	\$—	\$—	\$933	\$880	
FHLB advances	5,750	—	—	—	—	—	5,750	16,200	
Total short-term borrowings	6,683	—	—	—	—	—	6,683	17,080	
Long-term debt:									
Securitized debt obligations	1,652	5,482	4,370	588	550	75	12,717	11,624	
Senior and subordinated notes:									
Unsecured senior debt	1,627	2,521	4,463	1,612	2,535	5,146	17,904	16,054	
Unsecured subordinated debt	—	1,067	—	—	328	1,260	2,655	2,630	
Total senior and subordinated notes	1,627	3,588	4,463	1,612	2,863	6,406	20,559	18,684	
Other long-term borrowings:									
FHLB advances	1,016	20	25	5	2	2	1,070	1,069	
Total long-term debt <sup>(1)</sup>	4,295	9,090	8,858	2,205	3,415	6,483	34,346	31,377	
Total short-term borrowings and long-term debt	\$10,978	\$9,090	\$8,858	\$2,205	\$3,415	\$6,483	\$41,029	\$48,457	
Percentage of total	27	% 22	% 22	% 5	% 8	% 16	% 100	% 100	%

<sup>(1)</sup> Includes unamortized discounts, premiums and other cost basis adjustments, which together result in a net reduction of \$222 million and \$233 million as of March 31, 2015 and December 31, 2014, respectively.

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

### Borrowing Capacity

We filed a new shelf registration statement with the U.S. Securities and Exchange Commission (“SEC”) on March 31, 2015, which expires in 2018. Under this shelf registration, we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration statement to the amount or number of such securities that we may offer and sell, subject to market conditions.

In addition to our issuance capacity under the shelf registration statement, we also have access to FHLB advances with a maximum borrowing capacity of \$28.4 billion as of March 31, 2015, of which \$21.1 billion was still available to us to borrow as of March 31, 2015. To secure this borrowing capacity, we pledged loan collateral with an outstanding balance of \$35.6 billion and security collateral with a fair value of \$13 million as of March 31, 2015. 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

Table of Contents

FHLB stock of \$320 million and \$807 million as of March 31, 2015 and December 31, 2014, respectively, which was determined in part based on our outstanding advances. We also have access to the Federal Reserve Discount Window through which we had a borrowing capacity of \$8.4 billion as of March 31, 2015. Although available, we do not view this borrowing capacity as a primary source of liquidity and did not utilize it in 2014 or the first quarter of 2015.

**Credit Ratings**

Our credit ratings have a significant impact on our ability to access capital markets and our non-deposit 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 debt of Capital One Financial Corporation, COBNA and CONA as of March 31, 2015 and December 31, 2014.

Table 33: Senior Unsecured Debt Credit Ratings

	March 31, 2015			December 31, 2014		
	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.	Capital One Financial Corporation	Capital One Bank (USA), N.A.	Capital One, N.A.
Moody's	Baa1	A3	A3	Baa1	A3	A3
S&P	BBB	BBB+	BBB+	BBB	BBB+	BBB+
Fitch	A-	A-	A-	A-	A-	A-

As of May 4, 2015, Moody's, S&P and Fitch have us on a stable outlook. On March 17, 2015 Moody announced that they would be adopting a new bank rating methodology that could potentially result in changes in the ratings of the securities of many banks including Capital One's. As part of that announcement, Moody's put COF's subordinated debt and preferred stock on review for a possible one notch ratings upgrade and COBNA and CONA's senior unsecured debt on review for a possible one notch ratings downgrade.

**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.

**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 repricing of assets and liabilities.

## Table of Contents

### 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 is related to the funding of our non-dollar net investments in our International Card business in the U.K. and Canada. Our intercompany funding exposes our income statement to foreign exchange transaction risk, while our equity investments in our foreign operations results in translation risk in AOCI. 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. In the third quarter of 2014, we began entering into net investment hedges to manage our AOCI exposure. We apply hedge accounting to both of the intercompany funding hedges and the net investment hedges.

We measure our total exposure by regularly tracking the equity value of our net equity invested in our U.K. and Canadian foreign operations as well as their funding requirements. We apply a 30 percent U.S. dollar appreciation shock against each of our Great British Pound (“GBP”) and Canadian Dollar (“CAD”) net investment exposures. This shock approximates a 99 percent confidence interval over a one year time horizon for our combined GBP and CAD net investment exposure. Our gross equity exposures were 1.3 billion GBP as of both March 31, 2015 and December 31, 2014 and 605 million CAD and 581 million CAD as of March 31, 2015 and December 31, 2014 respectively. As a result of our derivative management activities, we believe our net exposure to foreign exchange risk is minimal.

### Market Risk Management

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, altering the duration and re-pricing characteristics of our various assets and liabilities through interest rate derivatives or mitigating the foreign exchange exposure of certain non-dollar denominated equity or transactions through derivatives. Derivatives are one of the primary tools we use in managing interest rate and foreign exchange risk. Our current asset and liability management policy includes the use of derivatives. We execute our derivative contracts in both over-the-counter and exchange-traded derivative markets. 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 totaled \$91.8 billion as of March 31, 2015, compared to \$88.6 billion as of December 31, 2014, driven by an increase in our hedging activities.

### Market Risk Measurement

We have prescribed risk management policies and limits established by our Market and Liquidity Risk Policy 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 foreign exchange rates on our non-dollar denominated earnings and non-dollar equity investments in foreign operations. We provide additional information below in “Economic Value of Equity.”

We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. Because the federal funds rate was lowered to near zero in December 2008, and since then has remained in a target range of 0% to 0.25%, we use a 50 basis points decrease as our declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is unlikely. In scenarios where a 50 basis points decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

### Net Interest Income Sensitivity

This sensitivity measure estimates the impact on our projected 12-month base-line interest rate sensitive revenue resulting from movements in interest rates. Interest rate sensitive revenue consists of net interest income and certain components of other non-interest income significantly impacted by movements in interest rates, including changes in the fair value of mortgage servicing rights and free-standing interest rate swaps. Adjusted net interest income consists

of net interest income and changes in the fair value of mortgage servicing rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our projected interest rate sensitive revenue, we assume an instantaneous +200 basis points and -50 basis points shock, with the lower rate scenario limited to zero as described above.



Table of Contents**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 and -50 basis points to spot rates, with the lower rate scenario limited to zero as described above.

Table 34 shows the estimated percentage impact on our projected base-line net interest income and economic value of equity, calculated under the methodology described above, as of March 31, 2015 and December 31, 2014.

Table 34: Interest Rate Sensitivity Analysis

	March 31, 2015		December 31, 2014	
Estimated impact on projected base-line net interest income				
+200 basis points	4.0	%	4.5	%
-50 basis points	(2.3	)	(2.1	)
Estimated impact on economic value of equity				
+200 basis points	(2.2	)	(3.4	)
-50 basis points	(1.6	)	(1.2	)

Our projected net interest income and economic value of equity sensitivity measures were within our prescribed asset/liability policy limits as of March 31, 2015 and December 31, 2014. 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 above sensitivity analysis contemplates only certain movements in interest rates and is performed at a particular point in time based on the existing balance sheet and, in some cases, expected future business growth and funding mix assumptions. The strategic actions that management may take to manage our balance sheet may differ significantly from our projections, which could cause our actual earnings and economic value of equity sensitivities to differ substantially from the above sensitivity analysis.

**SUPERVISION AND REGULATION**

We provide information on our Supervision and Regulation in our 2014 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation.”

**FORWARD-LOOKING STATEMENTS**

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



Table of Contents

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 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);
- financial, legal, regulatory, tax or accounting changes or actions, including the impact of the Dodd-Frank Act and the regulations promulgated thereunder and regulations governing bank capital and liquidity standards, including Basel-related initiatives and potential changes to financial accounting and reporting standards;
- developments, changes or actions relating to any litigation matter involving us;
- the inability to sustain revenue and earnings growth;
- increases or decreases in interest rates;
- our ability to access the capital markets at attractive rates and terms to capitalize and fund our operations and future growth;
- the success of our marketing efforts in attracting and retaining customers;
- increases or decreases in our aggregate loan balances or the number of customers and the growth rate and composition thereof, including increases or decreases resulting from factors such as shifting product mix, amount of actual marketing expenses we incur and attrition of loan balances;
- the level of future repurchase or indemnification requests we may receive, the actual future performance of mortgage loans relating to such requests, the success rates of claimants against us, any developments in litigation and the actual recoveries we may make on any collateral relating to claims against us;
- the amount and rate of deposit growth;
- changes in the reputation of, or expectations regarding, the financial services industry or us with respect to practices, products or financial condition;
- any significant disruption in our operations or technology platform;
  - our ability to maintain a compliance and technology infrastructure suitable for the nature of our business;
- our ability to develop digital technology that addresses the needs of our customers;
- our ability to control costs;
- the amount of, and rate of growth in, our expenses as our business develops or changes or as it expands into new market areas;
- our ability to execute on our strategic and operational plans;
- any significant disruption of, or loss of public confidence in, the United States mail service affecting our response rates and consumer payments;
- any significant disruption of, or loss of public confidence in, the internet affecting the ability of our customers to access their accounts and conduct banking transactions;
- our ability to recruit and retain talented and experienced personnel to assist in the development, management and operation of new products and services;

Table of Contents

• changes in the labor and employment markets;  
• fraud or misconduct by our customers, employees or business partners;  
• competition from providers of products and services that compete with our businesses; and  
• other risk factors listed from time to time in reports that we file with the SEC.

Any forward-looking statements made by us or on our behalf speak only as of the date they are made or as of the date indicated, and we do not undertake any obligation to update forward-looking statements as a result of new information, future events or otherwise. You should carefully consider the factors discussed above in evaluating these forward-looking statements. For additional information on factors that could materially influence forward-looking statements included in this Report, see the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2014 Form 10-K.

Table of Contents

## SUPPLEMENTAL TABLE

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

(Dollars in millions)	March 31, 2015	December 31, 2014
Quarterly Average Tangible Common Equity		
Average stockholders' equity	\$46,397	\$45,576
Average goodwill and intangible assets <sup>(2)</sup>	(15,339 )	(15,437 )
Average noncumulative perpetual preferred stock <sup>(3)</sup>	(1,822 )	(1,681 )
Average tangible common equity	\$29,236	\$28,458
Period End Tangible Common Equity		
Period end stockholders' equity	\$45,730	\$45,053
Goodwill and intangible assets <sup>(2)</sup>	(15,307 )	(15,383 )
Noncumulative perpetual preferred stock <sup>(3)</sup>	(1,822 )	(1,822 )
Tangible common equity	\$28,601	\$27,848
Quarterly Average Tangible Assets		
Average assets	\$309,401	\$304,153
Average goodwill and intangible assets <sup>(2)</sup>	(15,339 )	(15,437 )
Average tangible assets	\$294,062	\$288,716
Period End Tangible Assets		
Period end assets	\$306,224	\$308,167
Goodwill and intangible assets <sup>(2)</sup>	(15,307 )	(15,383 )
Tangible assets	\$290,917	\$292,784
Non-GAAP TCE ratio		
TCE ratio <sup>(4)</sup>	9.83	% 9.49 %
Capital Ratios		
Common equity Tier 1 capital ratio <sup>(5)</sup>	12.46	% 12.46 %
Tier 1 risk-based capital ratio <sup>(6)</sup>	13.22	13.23
Total risk-based capital ratio <sup>(7)</sup>	15.07	15.14
Tier 1 leverage ratio <sup>(8)</sup>	10.66	10.77
Supplementary leverage ratio <sup>(9)</sup>	9.22	N/A
Risk-weighted assets <sup>(10)</sup>	\$238,144	\$236,944
Average assets for the leverage ratio	295,556	291,243
Regulatory Capital Ratios Under Basel III Standardized Approach		
Common equity excluding AOCI	\$44,120	\$43,661
Adjustments:		
AOCI <sup>(11)(12)</sup>	(26 )	(69 )
Goodwill <sup>(2)</sup>	(13,801 )	(13,805 )
Intangible Assets <sup>(2)(12)</sup>	(450 )	(243 )
Other	(172 )	(10 )
Common equity Tier 1 capital	29,671	29,534
Tier 1 capital instruments <sup>(3)</sup>	1,822	1,822
Additional Tier 1 capital adjustments	—	(1 )
Tier 1 capital	31,493	31,355
Tier 2 capital instruments <sup>(3)</sup>	1,390	1,542
Qualifying allowance for loan and lease losses	2,996	2,981
Additional Tier 2 capital adjustments	—	1
Tier 2 capital	4,386	4,524
Total risk-based capital <sup>(13)</sup>	\$35,879	\$35,879



Table of Contents

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- As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net
- (1) basis, for presenting qualifying derivative assets and liabilities, as well as the related right to reclaim cash collateral or obligation to return cash collateral. See “Note 1—Summary of Significant Accounting Policies” for additional information. Prior period results, excluding regulatory ratios, have been recast to conform to this presentation.
  - (2) Includes impact of related deferred taxes.
  - (3) Includes related surplus.
  - (4) TCE ratio is a non-GAAP measure calculated based on TCE divided by tangible assets.
  - (5) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.
  - (6) Tier 1 risk-based capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.
  - (7) Total risk-based capital ratio is a regulatory capital measure calculated based on total risk-based capital divided by risk-weighted assets.
  - (8) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by average assets, after certain adjustments.
  - (9) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital under the Basel III Standardized Approach divided by total leverage exposure. See “MD&A—Capital Management” for additional information.
  - (10) As of January 1, 2015, risk-weighted assets are calculated under the Basel III Standardized Approach, subject to transition provisions. Prior to January 1, 2015 risk-weighted assets were calculated under Basel I.
  - (11) Amounts presented are net of tax.
  - (12) Amounts based on transition provisions for regulatory capital deductions and adjustments of 20% for 2014 and 40% for 2015.
  - (13) Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.

Table of Contents

Glossary and Acronyms

**2012 U.S. card acquisition:** On May 1, 2012, pursuant to the agreement with HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (collectively, “HSBC”), we closed the acquisition of substantially all of the assets and assumed liabilities of HSBC’s credit card and private label credit card business in the United States (other than the HSBC Bank USA, consumer credit card program and certain other retained assets and liabilities).

**Acquired Loans:** Refers to the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase Bank acquisitions, and a limited portion of the credit card loans acquired in the 2012 U.S. card acquisition, which were recorded at fair value at acquisition and subsequently accounted for based on expected cash flows to be collected (under the accounting standard formerly known as “Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer,” commonly referred to as “SOP 03-3” or “ASC 310-30”). The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized into 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. Decreases in expected cash flows from the previous estimate resulting from further credit deterioration will generally result in an impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference is depleted. In addition, Acquired Loans are not classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference will absorb the majority of the losses associated with these loans.

**Annual Report:** References to our “2014 Form 10-K” or “2014 Annual Report” or “this Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2014.

**Banks:** Refers to COBNA and CONA.

**Basel Committee:** The Basel Committee on Banking Supervision.

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

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

**Benefit Obligation and Projected Benefit Obligation:** Benefit Obligation refers to the total of the projected benefit obligation for pension plans and the accumulated postretirement benefit obligations. Projected Benefit Obligation represents the actuarial present value of all benefits accrued on employee service rendered prior to the calculation date, including allowance for future salary increases if the pension benefit is based on future compensation levels.

**BHC Act:** The Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842).

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

**Carrying Value (with respect to loans):** The amount at which a loan is recorded on the consolidated balance sheets. For loans recorded at amortized cost, carrying value is the unpaid principal balance net of unamortized deferred loan origination fees and costs, and unamortized purchase premium or discount. For loans that are or have been on nonaccrual status, the carrying value is also reduced by any net charge-offs that have been recorded and the amount of interest payments applied as a reduction of principal under the cost recovery method. For credit card loans, the carrying value also includes interest that has been billed to the customer. For loans classified as held for sale, carrying value is the lower of carrying value as described in the sentences above, or fair value. For Acquired Loans, the carrying value equals fair value upon acquisition adjusted for subsequent cash collections and yield accreted to date.

**CCB:** Chevy Chase Bank, F.S.B., which was acquired by the Company on February 27, 2009.

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



Collective trusts: An investment fund formed from the pooling of investments by investors.

55

Capital One Financial Corporation  
(COF)

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Table of Contents

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

Company: Capital One Financial Corporation and its subsidiaries.

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

Credit derivatives: Contractual agreements that provide insurance against a credit event of one or more referenced credits. Such events include bankruptcy, insolvency and failure to meet payment obligations when due.

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

Derivative: A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.

Discontinued operations: The operating results of a component of an entity, as defined by ASC 205, that are removed from continuing operations when that component has been disposed of or it is management's intention to sell the component.

Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act"): Regulatory reform legislation signed into law on July 21, 2010. This law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of the financial services sector.

Exchange Act: The Securities Exchange Act of 1934.

eXtensible Business Reporting Language ("XBRL"): A language for the electronic communication of business and financial data.

Federal Banking Agencies: The Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Issuance Corporation.

Federal Reserve: Board of Governors of the Federal Reserve System.

FICO score: A measure of consumer credit risk provided by credit bureaus, typically produced from statistical modeling software created by Fair Isaac Corporation utilizing data collected by the credit bureaus.

Final Basel III Capital Rules: The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued a rule implementing the Basel III capital framework developed by the Basel Committee on Banking Supervision as well as certain Dodd-Frank Act and other capital provisions.

Final LCR Rule: The Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency issued final rules implementing the Basel III liquidity coverage ratio in the United States. The Final LCR Rule will require 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 Final LCR Rule.

Final Rule: A new capital rule finalized by the Federal Reserve, the OCC and the FDIC (collectively, the U.S. federal banking agencies) that implements the Basel III capital accord developed by the Basel Committee on Banking Supervision and incorporates certain Dodd-Frank Act capital provisions and updates to the PCA capital requirements.

Foreign currency swaps: An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.

Foreign exchange contracts: Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

Forward rate agreements: Contracts to exchange payments on a specified future date, based on a market change in interest rates from trade date to contract settlement date.

GreenPoint: Refers to our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint"), which was closed in 2007.



Table of Contents

**GSE or Agency:** A government-sponsored enterprise or agency is a financial services corporation created by the United States Congress. Examples of U.S. government agencies include Federal National Mortgage Association (Fannie Mae), Federal Home Loan Mortgage Corporation (Freddie Mac), Government National Mortgage Association (Ginnie Mae) and the Federal Home Loan Banks.

**Impairment:** The condition when the carrying amount of an asset exceeds or is expected to exceed its fair value.

**Impaired loans:** A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.

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

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

**Insured Securitizations:** Securitizations supported by bond insurance.

**Interest rate sensitivity:** The exposure to interest rate movements.

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

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

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

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

**Leverage ratio (Basel I guideline):** Tier 1 capital divided by average assets after certain adjustments, as defined by the regulators.

**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.

**Loan-to-value (“LTV”) ratio:** The relationship expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate, autos, etc.) securing the loan.

**Managed basis:** A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.

**Market risk:** 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.

**Master netting agreement:** An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.

**Mortgage-Backed Security (“MBS”):** An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.

**Mortgage Servicing Rights (“MSR”):** The right to service a mortgage loan when the underlying loan is sold or securitized. Servicing includes collections for principal, interest and escrow payments from borrowers and accounting for and remitting principal and interest payments to investors.

Net interest margin: The result of dividing net interest income by average interest-earning assets.

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

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

Table of Contents

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

Option-ARM loans: The option-ARM real estate loan product is an adjustable-rate mortgage loan that provides the borrower with the option each month to make a fully amortizing, interest-only or minimum payment.

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

Patriot Act: The USA PATRIOT Act of 2001 (Uniting and Strengthening America by Providing Appropriate Tools Required to Intercept and Obstruct Terrorism).

Portfolio Sale: The sale of the Best Buy private label and co-branded credit card portfolio to Citibank, N.A., which was completed on September 6, 2013.

Proxy Statement: Capital One’s Proxy Statement for the 2015 Annual Stockholders Meeting.

Public Fund deposits: Deposits that are derived from a variety of political subdivisions such as school districts and municipalities.

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

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

Repurchase Agreement: An instrument used to raise short-term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.

Restructuring charges: Charges typically from the consolidation, relocation of operations, and reductions in work force.

Return on assets: Calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.

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

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

Risk-weighted assets: Risk-weighted assets consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default. In 2014, the calculation of risk weighted assets is based on the general risk-based approach, as defined by regulators.

Securitized Debt Obligations: A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.

SOP 03-3: Statement of Position 03-3 (or ASC 310-30), Accounting for Certain Loans or Debt Securities Acquired in a Transfer.

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

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

Tangible common equity (“TCE”): Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.

Tier 1 Common Capital: Tier 1 capital less preferred stock, qualifying trust preferred securities, hybrid securities and qualifying noncontrolling interest in subsidiaries under Basel I.



Table of Contents

Troubled debt restructuring (“TDR”): A TDR is deemed to occur when the Company modifies the contractual terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.

U.S. federal banking agencies: The Federal Reserve, the OCC and the FDIC.

U.S. GAAP: Accounting principles generally accepted in the United States of America. Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S.

Unfunded commitments: Legally binding agreements to provide a defined level of financing until a specified future date.

Variable Interest Entity (“VIE”): An entity that: (1) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (2) has equity owners that lack the right to make significant decisions affecting the entity’s operations; and/or (3) has equity owners that do not have an obligation to absorb or the right to receive the entity’s losses or return.

Volker Rule: A final rule implementing Section 619 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).

Acronyms

ABS: Asset-backed security

AOCI: Accumulated other comprehensive income

ARM: Adjustable rate mortgage

ASC: Accounting Standard Codification

BHC: Bank holding company

bps: Basis points

CAD: Canadian Dollar

CCAR: Comprehensive Capital Analysis and Review

CDE: Community development entities

CFPB: Consumer Financial Protection Bureau

CFTC: Commodity Futures Trading Commission

CMBS: Commercial mortgage-backed securities

COEP: Capital One (Europe) plc

COF: Capital One Financial Corporation

COSO: Committee of Sponsoring Organizations of the Treadway Commission

CRA: Community Reinvestment Act

DUS: Delegated Underwriting and Servicing

Fannie Mae: Federal National Mortgage Association

FASB: Financial Accounting Standards Board

FCA: U.K. Financial Conduct Authority

FDIC: Federal Deposit Insurance Corporation

FDICIA: The Federal Deposit Insurance Corporation Improvement Act of 1991

FFIEC: Federal Financial Institutions Examination Council

FHA: Federal Housing Administration

FHLB: Federal Home Loan Banks

FICO: Fair Isaac Corporation (credit rating)

FIRREA: Financial Institutions Reform, Recovery, and Enforcement Act

Fitch: Fitch Ratings

Freddie Mac: Federal Home Loan Mortgage Corporation



Table of Contents

FTE: Fully taxable-equivalent  
FVC: Fair Value Committee  
GBP: Great British Pound  
GDP: Gross domestic product  
Ginnie Mae: Government National Mortgage Association  
GLBA: Gramm-Leach-Bliley Act  
GSE or Agencies: Government Sponsored Enterprise  
HELOCs: Home Equity Lines of Credit  
HFI: Held for Investment  
HSBC: HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc.  
LCR: Liquidity Coverage Ratio  
LIBOR: London Interbank Offered Rate  
Moody's: Moody's Investors Service  
MSR: Mortgage servicing rights  
NOW: Negotiable order of withdrawal  
OCC: Office of the Comptroller of the Currency  
OIS: Overnight Indexed Swap  
OTC: Over-the-counter  
PCA: Prompt corrective action  
PCCR: Purchased credit card relationship  
RMBS: Residential mortgage-backed securities  
SAC: Same-as-Cash  
S&P: Standard & Poor's  
SCRA: Servicemembers Civil Relief Act  
SEC: U.S. Securities and Exchange Commission  
TARP: Troubled Asset Relief Program  
TAV: Trade Analytics and Valuation team  
TCE: Tangible Common Equity  
TILA: Truth in Lending Act  
UCL: Unfair Competition Law  
U.S.: United States of America  
U.K.: United Kingdom  
VAC: Valuations Advisory Committee

Table of Contents

Item 1. Financial Statements and Notes

	Page
<u>Consolidated Financial Statements</u>	<u>61</u>
<u>Consolidated Statements of Income</u>	<u>62</u>
<u>Consolidated Statements of Comprehensive Income</u>	<u>63</u>
<u>Consolidated Balance Sheets</u>	<u>64</u>
<u>Consolidated Statements of Changes in Stockholders' Equity</u>	<u>65</u>
<u>Consolidated Statements of Cash Flows</u>	<u>66</u>
<u>Notes to Consolidated Financial Statements</u>	<u>67</u>
<u>Note 1 — Summary of Significant Accounting Policies</u>	<u>67</u>
<u>Note 2 — Discontinued Operations</u>	<u>68</u>
<u>Note 3 — Investment Securities</u>	<u>69</u>
<u>Note 4 — Loans</u>	<u>76</u>
<u>Note 5 — Allowance for Loan and Lease Losses</u>	<u>91</u>
<u>Note 6 — Variable Interest Entities and Securitizations</u>	<u>94</u>
<u>Note 7 — Goodwill and Intangible Assets</u>	<u>99</u>
<u>Note 8 — Deposits and Borrowings</u>	<u>100</u>
<u>Note 9 — Derivative Instruments and Hedging Activities</u>	<u>102</u>
<u>Note 10 — Stockholders' Equity</u>	<u>108</u>
<u>Note 11 — Earnings Per Common Share</u>	<u>110</u>
<u>Note 12 — Fair Value Measurement</u>	<u>111</u>
<u>Note 13 — Business Segments</u>	<u>122</u>
<u>Note 14 — Commitments, Contingencies, Guarantees and Others</u>	<u>124</u>

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

(Dollars in millions, except per share-related data)	Three Months Ended		
	March 31, 2015	2014	
Interest income:			
Loans, including loans held for sale	\$4,540	\$4,307	
Investment securities	406	416	
Other	28	30	
Total interest income	4,974	4,753	
Interest expense:			
Deposits	271	276	
Securitized debt obligations	33	38	
Senior and subordinated notes	79	77	
Other borrowings	15	12	
Total interest expense	398	403	
Net interest income	4,576	4,350	
Provision for credit losses	935	735	
Net interest income after provision for credit losses	3,641	3,615	
Non-interest income:			
Service charges and other customer-related fees	437	474	
Interchange fees, net	496	440	
Total other-than-temporary impairment	(9	) (3	)
Less: Portion of other-than-temporary impairment recorded in AOCI	(6	) (2	)
Net other-than-temporary impairment recognized in earnings	(15	) (5	)
Other	153	111	
Total non-interest income	1,071	1,020	
Non-interest expense:			
Salaries and associate benefits	1,211	1,161	
Occupancy and equipment	435	405	
Marketing	375	325	
Professional services	296	287	
Communications and data processing	202	196	
Amortization of intangibles	110	143	
Other	420	415	
Total non-interest expense	3,049	2,932	
Income from continuing operations before income taxes	1,663	1,703	
Income tax provision	529	579	
Income from continuing operations, net of tax	1,134	1,124	
Income from discontinued operations, net of tax	19	30	
Net income	1,153	1,154	
Dividends and undistributed earnings allocated to participating securities	(6	) (5	)
Preferred stock dividends	(32	) (13	)
Net income available to common stockholders	\$1,115	\$1,136	
Basic earnings per common share:			
Net income from continuing operations	\$2.00	\$1.94	
Income from discontinued operations	0.03	0.05	
Net income per basic common share	\$2.03	\$1.99	

Diluted earnings per common share:

Net income from continuing operations	\$1.97	\$1.91
Income from discontinued operations	0.03	0.05
Net income per diluted common share	\$2.00	\$1.96
Dividends paid per common share	\$0.30	\$0.30

See Notes to Consolidated Financial Statements.

Table of Contents

## CAPITAL ONE FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

(Dollars in millions)	Three Months Ended	
	March 31,	
	2015	2014
Net income	\$1,153	\$1,154
Other comprehensive income (loss) before taxes:		
Net unrealized gains on securities available for sale	190	229
Net changes in securities held to maturity	33	28
Net unrealized gains on cash flow hedges	258	30
Foreign currency translation adjustments	(41 )	(13 )
Other	(4 )	(1 )
Other comprehensive income before taxes	436	273
Income tax provision related to other comprehensive income	218	111
Other comprehensive income, net of tax	218	162
Comprehensive income	\$1,371	\$1,316
See Notes to Consolidated Financial Statements.		

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

(Dollars in millions, except per share data)	March 31, 2015	December 31, 2014
Assets:		
Cash and cash equivalents:		
Cash and due from banks	\$2,853	\$ 3,147
Interest-bearing deposits with banks	6,038	4,095
Total cash and cash equivalents	8,891	7,242
Restricted cash for securitization investors	234	234
Securities available for sale, at fair value	39,321	39,508
Securities held to maturity, at carrying value	23,241	22,500
Loans held for investment:		
Unsecuritized loans held for investment	170,040	171,771
Restricted loans for securitization investors	33,938	36,545
Total loans held for investment	203,978	208,316
Allowance for loan and lease losses	(4,405 )	(4,383 )
Net loans held for investment	199,573	203,933
Loans held for sale, at lower of cost or fair value	1,331	626
Premises and equipment, net	3,684	3,685
Interest receivable	1,078	1,079
Goodwill	13,978	13,978
Other assets	14,893	15,382
Total assets	\$306,224	\$ 308,167
Liabilities:		
Interest payable	\$195	\$ 254
Deposits:		
Non-interest bearing deposits	25,232	25,081
Interest-bearing deposits	185,208	180,467
Total deposits	210,440	205,548
Securitized debt obligations	12,717	11,624
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	933	880
Senior and subordinated notes	20,559	18,684
Other borrowings	6,820	17,269
Total other debt	28,312	36,833
Other liabilities	8,830	8,855
Total liabilities	260,494	263,114
Commitments, contingencies and guarantees (see Note 14)		
Stockholders' equity:		
Preferred stock (par value \$.01 per share; 50,000,000 shares authorized; 1,875,000 shares issued and outstanding both as of March 31, 2015 and December 31, 2014)	0	0
Common stock (par value \$.01 per share; 1,000,000,000 shares authorized; 645,336,323 and 643,557,048 shares issued as of March 31, 2015 and December 31, 2014, respectively, and 548,003,155 and 553,391,311 shares outstanding as of March 31, 2015	6	6

and December 31, 2014, respectively)

Additional paid-in capital, net	27,939	27,869
Retained earnings	24,925	23,973
Accumulated other comprehensive loss	(212 )	(430 )
Treasury stock at cost (par value \$.01 per share; 97,333,168 and 90,165,737 shares as of March 31, 2015 and December 31, 2014, respectively)	(6,928 )	(6,365 )
Total stockholders' equity	45,730	45,053
Total liabilities and stockholders' equity	\$306,224	\$ 308,167

See Notes to Consolidated Financial Statements.

Table of Contents

## CAPITAL ONE FINANCIAL CORPORATION

## CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions, except shares)	Preferred Stock	Common Stock			Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
	Shares	Amount	Shares	Amount	Amount	Amount	Amount	Amount	Amount
Balance as of December 31, 2014	1,875,000	\$0	643,557,048	\$6	\$27,869	\$23,973	\$(430)	\$(6,365)	\$45,053
Comprehensive income						1,153	218		1,371
Dividends—common stock			29,455	0	2	(169)			(167)
Dividends—preferred stock						(32)			(32)
Purchases of treasury stock								(563)	(563)
Issuances of common stock and restricted stock, net of forfeitures			1,497,059	0	24				24
Exercise of stock options and warrants, tax effects of exercises and restricted stock vesting			252,761	0	10				10
Compensation expense for restricted stock awards and stock options					34				34
Balance as of March 31, 2015	1,875,000	\$0	645,336,323	\$6	\$27,939	\$24,925	\$(212)	\$(6,928)	\$45,730

See Notes to Consolidated Financial Statements.



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

(Dollars in millions)	Three Months Ended		
	March 31, 2015	2014	
Operating activities:			
Income from continuing operations, net of tax	\$1,134	\$1,124	
Income from discontinued operations, net of tax	19	30	
Net income	1,153	1,154	
Adjustments to reconcile net income to cash provided by operating activities:			
Provision for credit losses	935	735	
Depreciation and amortization, net	483	514	
Net gain on sales of securities available for sale	(2	) (13	)
Impairment losses on securities available for sale	15	5	
Gain on sales of loans held for sale	(34	) (7	)
Stock plan compensation expense	50	84	
Loans held for sale:			
Originations and purchases	(1,916	) (695	)
Proceeds from sales and paydowns	1,234	667	
Changes in operating assets and liabilities:			
Decrease in interest receivable	1	5	
Decrease in other assets	187	1,406	
Decrease in interest payable	(59	) (50	)
Decrease in other liabilities	(8	) (597	)
Net cash used by discontinued operations	(46	) (49	)
Net cash provided by operating activities	1,993	3,159	
Investing activities:			
Securities available for sale:			
Purchases	(2,883	) (3,443	)
Proceeds from paydowns and maturities	1,891	1,776	
Proceeds from sales	1,342	2,976	
Securities held to maturity:			
Purchases	(1,193	) (1,269	)
Proceeds from paydowns and maturities	453	254	
Loans:			
Net decrease in loans held for investment	3,143	2,817	
Principal recoveries of loans previously charged off	403	404	
Purchases of premises and equipment	(153	) (129	)
Net cash provided by other investing activities	68	0	
Net cash provided by investing activities	3,071	3,386	
Financing activities:			
Deposits and borrowings:			
Decrease restricted cash for securitization investors	0	324	
Net increase in deposits	4,890	3,799	
Issuance of securitized debt obligations	1,247	948	
Maturities and paydowns of securitized debt obligations	(175	) (1,470	)
Issuance of senior and subordinated notes and junior subordinated debentures	2,988	1,994	
Maturities and redemptions of senior and subordinate notes	(1,250	) (275	)

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Net decrease in other borrowings	(10,396 )	(11,787 )
Common stock:		
Net proceeds from issuances	\$24	\$27
Dividends paid	(167 )	(174 )
Preferred stock:		
Dividends paid	(32 )	(13 )
Purchases of treasury stock	(563 )	(39 )
Proceeds from share-based payment activities	19	12
Net cash used by financing activities	(3,415 )	(6,654 )
Increase (decrease) in cash and cash equivalents	1,649	(109 )
Cash and cash equivalents at beginning of the period	7,242	6,291
Cash and cash equivalents at end of the period	\$8,891	\$6,182
Supplemental cash flow information:		
Non-cash items:		
Net transfers from loans held for investment to loans held for sale	\$3	\$8
Interest paid	457	451
Income tax refund	(87 )	(19 )
See Notes to Consolidated Financial Statements.		

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, a Delaware Corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the “Company”) offers 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 March 31, 2015, our principal subsidiaries included:

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

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

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

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

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

Basis of Presentation and Use of Estimates

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

Principles of Consolidation

The consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a Variable Interest Entity (“VIE”). All significant intercompany account balances and transactions have been eliminated.

Change in Accounting Principle

As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), for instruments executed with the same counterparty where a right of setoff exists. This newly adopted policy is preferable as it more accurately reflects the Company’s counterparty credit risk as well as our contractual rights and obligations under these arrangements. Further, this change will align our presentation with that of the majority of our peer institutions.

We retrospectively adopted this change in accounting principle and our consolidated balance sheet has been recast for all prior periods presented. As a result, our interest receivable, other assets and total assets as of December 31, 2014

were reduced by \$356 million, \$331 million and \$687 million, respectively. Interest payable, other liabilities and total liabilities decreased as of December 31, 2014 by \$63 million, \$624 million and \$687 million, respectively. There was no impact to operating activities in the consolidated statement of cash flows or any line item within the consolidated statements of income. See “Note 9—Derivative Instruments and Hedging Activities” for additional detail on the accounting for derivative instruments.

#### New Accounting Standards Adopted

##### Accounting for Repurchase Transactions

In June 2014, the FASB issued guidance that requires repurchase-to-maturity transactions to be accounted for as secured borrowings rather than sales. New disclosures will also be required for certain transactions accounted for as secured borrowings and transfers accounted for as sales when the transferor retains substantially all of the exposure to the economic return on the transferred financial assets. Our adoption of the accounting guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice. As required by the new guidance, the new disclosures will be effective and provided beginning in the second quarter of 2015.

##### Accounting for Share-Based Payments When the Terms of an Award Provide That a Performance Target Could Be Achieved after the Requisite Service Period

In June 2014, the FASB issued guidance clarifying that a performance target contained within a share-based payment award that affects vesting and can be achieved after the requisite service period has been completed is to be accounted for as a performance condition. Accordingly, the grantor of such awards should recognize compensation cost in the period in which it becomes probable that the performance target will be achieved. The amount of the compensation cost recognized should represent the cost attributable to the requisite service period fulfilled. The guidance is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. Our adoption of this guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is consistent with our current practice.

##### Reporting Discontinued Operations and Disclosures of Disposals of Components of an Entity

In April 2014, the FASB issued guidance raising the threshold for a disposal to qualify as a discontinued operation. Under the new guidance, a component of an entity or group of components that has been disposed by sale, disposed of other than by sale or is classified as held for sale and that represents a strategic shift that has, or will have, a major effect on an entity’s operations and financial results should be reported as discontinued operations. The guidance should be applied prospectively for disposals or classifications as held for sale of components of an entity that occur within annual and interim periods beginning after December 15, 2014, with early adoption permitted in certain circumstances. Our adoption of this guidance in the first quarter of 2015 did not have a material effect on our consolidated financial statements due to the prospective transition provisions.

##### Reclassification of Residential Real Estate Collateralized Consumer Mortgage Loans Upon Foreclosure

In January 2014, the FASB issued guidance clarifying when an entity should reclassify a consumer mortgage loan collateralized by residential real estate to foreclosed property. Reclassification should occur when the creditor obtains legal title to the residential real estate property or when the borrower conveys all interest in the residential real estate property to the creditor to satisfy that loan through completion of a deed in lieu of foreclosure or through a similar legal agreement. An entity should not wait until a redemption period, if any, has expired to reclassify a consumer mortgage loan to foreclosed property. The guidance was effective for annual and interim periods beginning after December 15, 2014. Our adoption of this guidance in the first quarter of 2015 did not have a significant impact on our financial condition, results of operations or liquidity as the guidance is materially consistent with our current practice.

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

##### Simplifying the presentation of debt issuance costs

In April 2015, the FASB issued guidance simplifying the presentation of debt issuance costs. Under the new guidance, the debt issuance costs related to a recognized debt liability will be presented in the balance sheet as a direct deduction from the carrying amount of that debt liability, consistent with debt discounts. The guidance should be applied retrospectively and is effective for annual and interim periods beginning after December 15, 2015, with early adoption permitted. The Company is currently evaluating the potential impact from the new guidance on the consolidated financial statements.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 2—DISCONTINUED OPERATIONS

## Shutdown of Mortgage Origination Operations of our Wholesale Mortgage Banking Unit

In the third quarter of 2007, we closed the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint, which we acquired in December 2006 as part of the North Fork Bancorporation, Inc. (“North Fork”) acquisition. The results of the wholesale banking unit have been accounted for as a discontinued operation and are therefore not included in our results from continuing operations for the three months ended March 31, 2015 and 2014. We have no significant continuing involvement in these operations.

The following table summarizes the results from discontinued operations related to the closure of the mortgage origination operations of our wholesale mortgage banking unit:

Table 2.1: Results of Discontinued Operations

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Non-interest income, net	\$30	\$47
Income from discontinued operations before income taxes	30	47
Income tax provision	11	17
Income from discontinued operations, net of tax	\$19	\$30

The discontinued mortgage origination operations of our wholesale mortgage banking unit had remaining assets which primarily consisted of the deferred tax asset related to the reserve for representations and warranties; and liabilities which primarily consisted of reserves for representations and warranties on loans previously sold to third parties. See “Note 14—Commitments, Contingencies, Guarantees and Others” for information related to reserves we have established for our mortgage representation and warranty exposure.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 3—INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury securities; corporate debt securities guaranteed by U.S. government agencies; U.S. government-sponsored enterprise or agency (“Agency”) and non-agency residential mortgage-backed securities (“RMBS”) and commercial mortgage-backed securities (“CMBS”); other asset-backed securities (“ABS”); and other investments. The carrying value of our investments in U.S. Treasury, Agency securities and other securities guaranteed by the U.S. government or U.S. government agencies represented 87% and 86% of our total investment securities as of March 31, 2015 and December 31, 2014, respectively.

Our investment portfolio includes securities available for sale and securities held to maturity. We classify securities as available for sale or held to maturity based on our investment strategy and management’s assessment of our intent and ability to hold the securities until maturity.

The table below presents the overview of our investment portfolio at March 31, 2015 and December 31, 2014.

Table 3.1: Overview of Investment Portfolio

(Dollars in millions)	March 31, 2015	December 31, 2014
Securities available for sale, at fair value	\$39,321	\$ 39,508
Securities held to maturity, at carrying value	23,241	22,500
Total investments	\$62,562	\$ 62,008

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale at March 31, 2015 and December 31, 2014.

Table 3.2: Investment Securities Available for Sale

(Dollars in millions)	March 31, 2015			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$4,411	\$ 29	\$ 0	\$4,440
Corporate debt securities guaranteed by U.S. government agencies	600	3	(5 )	598
RMBS:				
Agency <sup>(2)</sup>	22,344	327	(64 )	22,607
Non-agency	2,943	503	(5 )	3,441
Total RMBS	25,287	830	(69 )	26,048
CMBS:				
Agency <sup>(2)</sup>	3,672	47	(43 )	3,676
Non-agency	1,711	46	(4 )	1,753
Total CMBS	5,383	93	(47 )	5,429
Other ABS <sup>(3)</sup>	2,025	6	(3 )	2,028
Other securities <sup>(4)</sup>	775	7	(4 )	778
Total investment securities available for sale	\$38,481	\$ 968	\$(128 )	\$39,321

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014			
	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses <sup>(1)</sup>	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	\$4,114	\$5	\$(1)	\$4,118
Corporate debt securities guaranteed by U.S. government agencies	819	1	(20)	800
RMBS:				
Agency <sup>(2)</sup>	21,804	296	(105)	21,995
Non-agency	2,938	461	(13)	3,386
Total RMBS	24,742	757	(118)	25,381
CMBS:				
Agency <sup>(2)</sup>	3,751	32	(60)	3,723
Non-agency	1,780	31	(15)	1,796
Total CMBS	5,531	63	(75)	5,519
Other ABS <sup>(3)</sup>	2,618	54	(10)	2,662
Other securities <sup>(4)</sup>	1,035	6	(13)	1,028
Total investment securities available for sale	\$38,859	\$886	\$(237)	\$39,508

- Includes non-credit related other-than-temporary impairment (“OTTI”) that remains in accumulated other comprehensive income (“AOCI”) of \$5 million and \$8 million as of March 31, 2015 and December 31, 2014, respectively. Substantially all of this entire amount is related to non-agency RMBS.
- (1) Agency includes Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”), and Government National Mortgage Association (“Ginnie Mae”).
- (2) ABS collateralized by credit card loans constituted approximately 59% and 56% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 18% and 16% of the other ABS portfolio as of March 31, 2015 and December 31, 2014, respectively.
- (3) Includes foreign government bonds, corporate bonds, municipal securities and equity investments primarily related to activities under the Community Reinvestment Act (“CRA”).

The table below presents the carrying value, gross unrealized gains and losses, and fair value of securities held to maturity at March 31, 2015 and December 31, 2014.

Table 3.3: Investment Securities Held to Maturity

(Dollars in millions)	March 31, 2015					
	Amortized Cost	Unrealized Losses Recorded in AOCI <sup>(1)</sup>	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	\$198	\$0	\$198	\$1	\$0	\$199
Agency RMBS	21,639	\$(1,155)	20,484	1,282	(3)	21,763
Agency CMBS	2,675	(116)	2,559	132	0	2,691
Total investment securities held to maturity	\$24,512	\$(1,271)	\$23,241	\$1,415	\$(3)	\$24,653
(Dollars in millions)	December 31, 2014					
	Amortized	Unrealized		Gross	Gross	Fair



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	Cost	Losses Recorded in AOCI <sup>(1)</sup>	Carrying Value	Unrealized Gains	Unrealized Losses	Value
U.S. Treasury securities	\$0	\$0	\$0	\$0	\$0	\$0
Agency RMBS	21,347	\$(1,184 )	20,163	1,047	0	21,210
Agency CMBS	2,457	(120 )	2,337	93	(6 )	2,424
Total investment securities held to maturity	\$23,804	\$(1,304 )	\$22,500	\$1,140	\$(6 )	\$23,634

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70

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Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Represents the unrealized holding gain or loss at the date of transfer from available for sale to held to maturity, net<sup>(1)</sup> of any subsequent accretion. Any bonds purchased into the securities held for maturity portfolio rather than transferred will not have unrealized losses recognized in AOCI.

## Investment Securities in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our securities available for sale in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of March 31, 2015 and December 31, 2014.

Table 3.4: Securities in Unrealized Loss Position

(Dollars in millions)	March 31, 2015					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	\$201	\$0	\$0	\$0	\$201	\$0
Corporate debt securities guaranteed by U.S. government agencies	155	(1 )	307	(4 )	462	(5 )
RMBS:						
Agency	4,288	(14 )	3,549	(50 )	7,837	(64 )
Non-agency	145	(2 )	62	(3 )	207	(5 )
Total RMBS	4,433	(16 )	3,611	(53 )	8,044	(69 )
CMBS:						
Agency	158	0	1,669	(43 )	1,827	(43 )
Non-agency	153	(1 )	312	(3 )	465	(4 )
Total CMBS	311	(1 )	1,981	(46 )	2,292	(47 )
Other ABS	376	0	474	(3 )	850	(3 )
Other securities	160	(2 )	184	(2 )	344	(4 )
Total investment securities available for sale in a gross unrealized loss position	\$5,636	\$(20 )	\$6,557	\$(108 )	\$12,193	\$(128 )

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014					
	Less than 12 Months		12 Months or Longer		Total	
	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	\$1,499	\$(1)	\$0	\$0	\$1,499	\$(1)
Corporate debt securities guaranteed by U.S. government agencies	113	(2)	557	(18)	670	(20)
RMBS:						
Agency	3,917	(15)	4,413	(90)	8,330	(105)
Non-agency	412	(9)	90	(4)	502	(13)
Total RMBS	4,329	(24)	4,503	(94)	8,832	(118)
CMBS:						
Agency	294	(2)	1,993	(58)	2,287	(60)
Non-agency	258	(1)	681	(14)	939	(15)
Total CMBS	552	(3)	2,674	(72)	3,226	(75)
Other ABS	783	(1)	586	(9)	1,369	(10)
Other securities	106	0	551	(13)	657	(13)
Total investment securities available for sale in a gross unrealized loss position	\$7,382	\$(31)	\$8,871	\$(206)	\$16,253	\$(237)

As of March 31, 2015, the amortized cost of approximately 400 securities available for sale exceeded their fair value by \$128 million, of which \$108 million related to investment securities that had been in a loss position for 12 months or longer. As of March 31, 2015, our investments in non-agency RMBS and CMBS, other ABS, and other securities accounted for \$16 million, or 13%, of total gross unrealized losses on securities available for sale. As of March 31, 2015, the carrying value of approximately 10 securities classified as held to maturity exceeded their fair value by \$3 million.

Gross unrealized losses on our investment securities have generally decreased since December 31, 2014. The unrealized losses related to investment securities for which we have not recognized credit impairment are primarily attributable to changes in market interest rates. As discussed in more detail below, we conduct periodic reviews of all investment securities with unrealized losses to assess whether impairment is other-than-temporary. We believe the securities with an unrealized loss in AOCI are not other-than-temporarily impaired as of March 31, 2015.

**Maturities and Yields of Investment Securities**

The following tables summarize the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of March 31, 2015.

Table 3.5: Contractual Maturities of Securities Available for Sale

(Dollars in millions)	March 31, 2015	
	Amortized Cost	Fair Value
Due in 1 year or less	\$662	\$662
Due after 1 year through 5 years	6,526	6,571
Due after 5 years through 10 years	2,509	2,554
Due after 10 years <sup>(1)</sup>	28,784	29,534
Total	\$38,481	\$39,321

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

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 3.6: Contractual Maturities of Securities Held to Maturity

(Dollars in millions)	March 31, 2015	
	Carrying Value	Fair Value
Due after 1 year through 5 years	\$198	\$199
Due after 5 years through 10 years	1,146	1,244
Due after 10 years	21,897	23,210
Total	\$23,241	\$24,653

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above. The table below summarizes, by major security type, the expected maturities and weighted average yields of our investment securities as of March 31, 2015.

Table 3.7: Expected Maturities and Weighted Average Yields of Securities

(Dollars in millions)	March 31, 2015					
	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total	
Fair value of securities available for sale:						
U.S. Treasury securities	\$251	\$4,189	\$0	\$0	\$4,440	
Corporate debt securities guaranteed by U.S. government agencies	0	434	151	13	598	
RMBS:						
Agency	369	15,422	6,816	0	22,607	
Non-agency	10	931	1,688	812	3,441	
Total RMBS	379	16,353	8,504	812	26,048	
CMBS:						
Agency	129	2,005	1,523	19	3,676	
Non-agency	135	424	1,194	0	1,753	
Total CMBS	264	2,429	2,717	19	5,429	
Other ABS	656	1,177	195	0	2,028	
Other securities	99	188	401	90	778	
Total securities available for sale	\$1,649	\$24,770	\$11,968	\$934	\$39,321	
Amortized cost of securities available for sale	\$1,651	\$24,431	\$11,581	\$818	\$38,481	
Weighted average yield for securities available for sale <sup>(1)</sup>	0.97	% 2.17	% 3.25	% 9.36	% 2.60	%
Carrying value of securities held to maturity:						
U.S. Treasury securities	\$0	\$198	\$0	\$0	\$198	
Agency RMBS	29	2,097	16,003	2,355	20,484	
Agency CMBS	0	65	2,304	190	2,559	
Total securities held for maturity	\$29	\$2,360	\$18,307	\$2,545	\$23,241	
Fair value of securities held to maturity	\$29	\$2,446	\$19,385	\$2,793	\$24,653	
Weighted average yield for securities held to maturity <sup>(1)</sup>	4.59	% 2.59	% 2.64	% 3.52	% 2.73	%

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

**Other-Than-Temporary Impairment**

We evaluate all securities in an unrealized loss position at least on a quarterly basis, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is based on a discounted cash flow analysis which requires careful use of judgments and assumptions. A number of qualitative and quantitative criteria may be considered in our

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

assessment as applicable, including the size and the nature of the portfolio; historical and projected performance such as prepayment, default and loss severity for the RMBS portfolio; recent credit events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings of the issuer and any failure or delay of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security; and current and projected market and macro-economic conditions.

If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in earnings. As of March 31, 2015, we do not intend to sell any securities with unrealized losses recorded in AOCI nor believe that we will be required to sell any securities prior to recovery of their amortized cost.

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

The table below presents a rollforward of the credit related OTTI recognized in earnings for the three months ended March 31, 2015 and 2014 on investment securities for which we had no intent to sell.

Table 3.8: Credit Impairment Rollforward

(Dollars in millions)	Three Months	
	Ended March 31, 2015	2014
Credit loss component, beginning of period	\$ 175	\$ 160
Additions:		
Initial credit impairment	5	1
Subsequent credit impairment	10	4
Total additions	15	5
Credit loss component, end of period	\$ 190	\$ 165

## Realized Gains and Losses on Securities and OTTI Recognized in Earnings

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale, and the OTTI losses recognized in earnings for the three months ended March 31, 2015 and 2014. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are held to maturity.

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

(Dollars in millions)	Three Months	
	Ended March 31, 2015	2014
Realized gains (losses):		
Gross realized gains	\$9	\$32
Gross realized losses	(7 )	(19 )
Net realized gains	2	13
Credit-related OTTI recognized in earnings	(15 )	(5 )
Total OTTI recognized in earnings	(15 )	(5 )
Net securities (losses) gains	\$(13 )	\$8
Total proceeds from sales	\$1,342	\$2,976





Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Banks and the Federal Reserve. We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities available for sale with a fair value of \$3.0 billion and \$3.5 billion as of March 31, 2015 and December 31, 2014, respectively. We pledged securities held to maturity with a carrying value of \$9.1 billion and \$9.0 billion as of March 31, 2015 and December 31, 2014, respectively. Of the total securities pledged as collateral, we have encumbered \$11.0 billion and \$10.6 billion as of March 31, 2015 and December 31, 2014, respectively, primarily related to Public Fund deposits and our derivative transactions. We accepted pledges of securities with a fair value of \$137 million and \$91 million as of March 31, 2015 and December 31, 2014, respectively, primarily related to our derivative transactions.

## Acquired Securities

The table below presents the outstanding balance, carrying value and amortized cost of the acquired credit-impaired debt securities as of March 31, 2015 and December 31, 2014.

Table 3.10: Outstanding Balance and Carrying Value of Acquired Securities

(Dollars in millions)	March 31, 2015	December 31, 2014
Outstanding balance	\$4,076	\$ 4,259
Carrying value	2,787	2,839
Amortized cost	2,307	2,354

## Changes in Accretable Yield of Acquired Securities

The following table presents changes in the accretable yield related to the acquired credit-impaired debt securities:

Table 3.11: Changes in Accretable Yield of Acquired Securities

(Dollars in millions)	Acquired Credit-Impaired Securities
Accretable yield as of December 31, 2014	\$ 1,250
Accretion recognized in earnings	(61 )
Reduction due to payoffs, disposals, transfers and other	(1 )
Net reclassifications from (to) nonaccretable difference	(17 )
Accretable yield as of March 31, 2015	\$ 1,171

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 4—LOANS

## Loan Portfolio Composition

Our loan portfolio consists of loans held for investment, including restricted loans underlying our consolidated securitization trusts, and loans held for sale, and is divided into three portfolio segments: credit card, consumer banking and commercial banking loans. Credit card loans consist of domestic and international credit card loans. Consumer banking loans consist of auto, home and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial and small-ticket commercial real estate loans. Our portfolio of loans held for investment also includes loans acquired in the ING Direct, CCB and 2012 U.S. card acquisitions. These loans were recorded at fair value at the date of each acquisition and are referred to as Acquired Loans. The substantial majority of the loans purchased in the 2012 U.S. card acquisition had existing revolving privileges; therefore, they were excluded from the Acquired Loans and accounted for based on contractual cash flows at acquisition. See “Note 1—Summary of Significant Accounting Policies” in our 2014 Form 10-K for additional information on accounting guidance for these loans.

## Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency ratios are an indicator, among other considerations, of credit risk within our loan portfolio. The level of nonperforming loans represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming loan rates, as well as net charge-off rates and our internal risk ratings of larger balance commercial loans. The table below presents the composition and an aging analysis of our loans held for investment portfolio, which includes restricted loans for securitization investors, as of March 31, 2015 and December 31, 2014. The delinquency aging includes all past due loans, both performing and nonperforming.

Table 4.1: Loan Portfolio Composition and Aging Analysis

(Dollars in millions)	March 31, 2015					Total Delinquent Loans	Acquired Loans	Total Loans
	Current	30-59 Days	60-89 Days	> 90 Days				
<b>Credit Card:</b>								
Domestic credit card <sup>(1)</sup>	\$71,947	\$637	\$456	\$1,070	\$2,163	\$21	\$74,131	
International credit card	7,361	102	61	99	262	0	7,623	
Total credit card	79,308	739	517	1,169	2,425	21	81,754	
<b>Consumer Banking:</b>								
Auto	36,788	1,514	515	120	2,149	0	38,937	
Home loan	6,509	49	25	208	282	22,114	28,905	
Retail banking	3,458	17	9	14	40	39	3,537	
Total consumer banking	46,755	1,580	549	342	2,471	22,153	71,379	
<b>Commercial Banking:</b>								
Commercial and multifamily real estate	22,695	43	5	51	99	37	22,831	
Commercial and industrial	26,800	14	120	115	249	123	27,172	
Total commercial lending	49,495	57	125	166	348	160	50,003	
Small-ticket commercial real estate	725	4	4	5	13	0	738	
Total commercial banking	50,220	61	129	171	361	160	50,741	

Other:

Other loans	91	4	1	8	13	0	104
Total loans <sup>(2)</sup>	\$176,374	\$2,384	\$1,196	\$1,690	\$5,270	\$22,334	\$203,978
% of Total loans	86.47	% 1.17	% 0.58	% 0.83	% 2.58	% 10.95	% 100.00

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014				Total Delinquent Loans	Acquired Loans	Total Loans
	Current	30-59 Days	60-89 Days	> 90 Days			
<b>Credit Card:</b>							
Domestic credit card <sup>(1)</sup>	\$75,143	\$790	\$567	\$1,181	\$2,538	\$23	\$77,704
International credit card	7,878	114	69	111	294	0	8,172
Total credit card	83,021	904	636	1,292	2,832	23	85,876
<b>Consumer Banking:</b>							
Auto	35,142	1,751	734	197	2,682	0	37,824
Home loan	6,492	57	27	218	302	23,241	30,035
Retail banking	3,496	17	7	16	40	44	3,580
Total consumer banking	45,130	1,825	768	431	3,024	23,285	71,439
<b>Commercial Banking:</b>							
Commercial and multifamily real estate	22,974	74	7	36	117	46	23,137
Commercial and industrial	26,753	29	10	34	73	146	26,972
Total commercial lending	49,727	103	17	70	190	192	50,109
Small-ticket commercial real estate	771	6	1	3	10	0	781
Total commercial banking	50,498	109	18	73	200	192	50,890
<b>Other:</b>							
Other loans	97	3	2	9	14	0	111
Total loans <sup>(2)</sup>	\$178,746	\$2,841	\$1,424	\$1,805	\$6,070	\$23,500	\$208,316
% of Total loans	85.81	% 1.36	% 0.68	% 0.87	% 2.91	% 11.28	% 100.00

(1) Includes installment loans of \$123 million and \$144 million as of March 31, 2015 and December 31, 2014, respectively.

Loans as presented are net of unearned income, unamortized premiums and discounts, and net unamortized

(2) deferred fees and costs totaling \$1.0 billion and \$1.1 billion as of March 31, 2015 and December 31, 2014, respectively.

We had total loans held for sale of \$1.3 billion and \$626 million as of March 31, 2015 and December 31, 2014, respectively.

Table 4.2 presents loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming as of March 31, 2015 and December 31, 2014.

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

(Dollars in millions)	March 31, 2015		December 31, 2014	
	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
<b>Credit Card:</b>				
Domestic credit card	\$1,070	\$0	\$1,181	\$0
International credit card	64	64	73	70
Total credit card	1,134	64	1,254	70

Consumer Banking:

Auto	0	120	0	197
Home loan	0	336	0	330
Retail banking	1	25	1	22
Total consumer banking	1	481	1	549

77

Capital One Financial Corporation  
(COF)

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Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Commercial Banking:

Commercial and multifamily real estate	24	40	7	62	
Commercial and industrial	60	106	1	106	
Total commercial lending	84	146	8	168	
Small-ticket commercial real estate	0	12	0	7	
Total commercial banking	84	158	8	175	
Other:					
Other loans	0	14	0	15	
Total	\$1,219	\$717	\$1,263	\$809	
% of Total loans	0.60	% 0.35	% 0.61	% 0.39	%

(1) Nonperforming loans generally include loans that have been placed on nonaccrual status. Acquired Loans are excluded from loans reported as 90 days and accruing interest as well as nonperforming loans.

## Credit Card

Our credit card loan portfolio is generally highly diversified across millions of accounts and numerous geographies without significant individual exposure. We therefore generally manage credit risk on a portfolio basis. The risk in our credit card portfolio correlates to broad economic trends, such as unemployment rates, gross domestic product (“GDP”), and home values, as well as customer liquidity, which can have a material effect on credit performance. The primary factors we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of the migration of loans between delinquency categories over time.

The table below displays the geographic profile of our credit card loan portfolio and delinquency statistics as of March 31, 2015 and December 31, 2014. We also present comparative net charge-offs for the three months ended March 31, 2015 and 2014.

Table 4.3: Credit Card: Risk Profile by Geographic Region and Delinquency Status

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total <sup>(1)</sup>	%	Amount	% of Total <sup>(1)</sup>	%
Domestic credit card:						
California	\$8,326	10.2	%	\$8,574	10.0	%
New York	5,339	6.5		5,610	6.5	
Texas	5,190	6.4		5,382	6.3	
Florida	4,635	5.7		4,794	5.6	
Illinois	3,525	4.3		3,747	4.4	
Pennsylvania	3,349	4.1		3,581	4.2	
Ohio	2,882	3.5		3,075	3.6	
New Jersey	2,714	3.3		2,868	3.3	
Michigan	2,516	3.1		2,681	3.1	
Other	35,655	43.6		37,392	43.5	
Total domestic credit card	74,131	90.7		77,704	90.5	
International credit card:						
Canada	4,443	5.4		4,747	5.5	
United Kingdom	3,180	3.9		3,425	4.0	
Total international credit card	7,623	9.3		8,172	9.5	
Total credit card	\$81,754	100.0	%	\$85,876	100.0	%



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTSSelected credit metrics<sup>(2)</sup>:

30+ day delinquencies	\$2,425	2.97	%	\$2,832	3.30	%
90+ day delinquencies	1,169	1.43		1,292	1.50	

(1) Percentages by geographic region within the domestic and international credit card portfolios are calculated based on the total held for investment credit card loans as of the end of the reported period.

(2) Calculated by dividing delinquent credit card loans by the total balance of credit card loans held for investment as of the end of the reported period.

Table 4.4: Credit Card: Net Charge-offs

(Dollars in millions)	Three Months Ended March 31,					
	2015		2014			
	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>		
Net charge-offs:						
Domestic credit card	\$664	3.55	%	\$700	4.01	%
International credit card	55	2.80		80	4.17	
Total credit card	\$719	3.48		\$780	4.02	

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

## Consumer Banking

Our consumer banking loan portfolio consists of auto, home loan and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio correlates to broad economic trends, such as unemployment rates, GDP, and home values, as well as customer liquidity, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key factors we assess in monitoring the credit quality and risk of our consumer banking loan portfolio.

The table below displays the geographic profile of our consumer banking loan portfolio, including Acquired Loans. We also present the delinquency and nonperforming loan rates of our consumer banking loan portfolio as of March 31, 2015 and December 31, 2014, and net charge-offs for the three months ended March 31, 2015 and 2014.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 4.5: Consumer Banking: Risk Profile by Geographic Region, Delinquency Status and Performing Status

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Amount	% of Total <sup>(1)</sup>	%	Amount	% of Total <sup>(1)</sup>	%
Auto:						
Texas	\$5,323	7.4	%	\$5,248	7.4	%
California	4,248	6.0		4,081	5.7	
Florida	2,919	4.1		2,737	3.8	
Georgia	2,124	3.0		2,066	2.9	
Louisiana	1,820	2.5		1,773	2.5	
Illinois	1,722	2.4		1,676	2.4	
Ohio	1,607	2.2		1,566	2.2	
Other	19,174	26.9		18,677	26.1	
Total auto	38,937	54.5		37,824	53.0	
Home loan:						
California	6,696	9.4		6,943	9.7	
New York	2,387	3.3		2,452	3.4	
Illinois	1,792	2.5		1,873	2.6	
Maryland	1,674	2.3		1,720	2.4	
Virginia	1,500	2.1		1,538	2.2	
New Jersey	1,471	2.1		1,529	2.1	
Florida	1,317	1.8		1,375	1.9	
Other	12,068	17.0		12,605	17.7	
Total home loan	28,905	40.5		30,035	42.0	
Retail banking:						
Louisiana	1,098	1.6		1,120	1.5	
New York	873	1.2		881	1.2	
Texas	749	1.0		756	1.1	
New Jersey	252	0.4		265	0.4	
Maryland	165	0.2		167	0.2	
Virginia	142	0.2		132	0.2	
California	50	0.1		52	0.1	
Other	208	0.3		207	0.3	
Total retail banking	3,537	5.0		3,580	5.0	
Total consumer banking	\$71,379	100.0	%	\$71,439	100.0	%

## March 31, 2015

(Dollars in millions)	Auto		Home Loan		Retail Banking		Total Consumer Banking	
	Amount	Rate	Amount	Rate <sup>(2)</sup>	Amount	Rate	Amount	Rate <sup>(2)</sup>
Credit performance:								
30+ day delinquencies	\$2,149	5.52 %	\$282	0.97 %	\$40	1.12 %	\$2,471	3.46 %
90+ day delinquencies	120	0.31	208	0.72	14	0.40	342	0.48
Nonperforming loans	120	0.31	336	1.16	25	0.71	481	0.67



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	December 31, 2014									
	Auto		Home Loan			Retail Banking		Total Consumer Banking		
(Dollars in millions)	Amount	Rate	Amount	Rate <sup>(2)</sup>	%	Amount	Rate	%	Amount	Rate <sup>(2)</sup>
Credit performance:										
30+ day delinquencies	\$2,682	7.09	\$302	1.01	%	\$40	1.11	%	\$3,024	4.23
90+ day delinquencies	197	0.52	218	0.73		16	0.44		431	0.60
Nonperforming loans	197	0.52	330	1.10		22	0.61		549	0.77

(1) Percentages by geographic region are calculated based on the total held for investment consumer banking loans as of the end of the reported period.

(2) Excluding the impact of Acquired Loans, the 30+ day delinquency rates, 90+ day delinquency rates, and the nonperforming loans rates for home loan portfolio were 4.15%, 3.06% and 4.94% as of March 31, 2015; and 4.45%, 3.21% and 4.86% as of December 31, 2014; and for total Consumer Banking were 5.02%, 0.70% and 0.98% as of March 31, 2015; and 6.28%, 0.89% and 1.14% as of December 31, 2014.

Table 4.6: Consumer Banking: Net Charge-offs

(Dollars in millions)	Three Months Ended March 31,			
	2015		2014	
Net charge-offs:	Amount	Rate <sup>(1)</sup>	Amount	Rate <sup>(1)</sup>
Auto	\$148	1.55	\$134	1.66
Home loan	2	0.03	5	0.06
Retail banking	9	0.96	9	0.95
Total consumer banking	\$159	0.89	\$148	0.84

(1) Calculated for each loan category by dividing annualized net charge-offs for the period by average loans held for investment during the period. Excluding the impact of Acquired Loans, the net charge-off rates for our home loan portfolio and total consumer banking were 0.11% and 1.30%, respectively, for the three months ended March 31, 2015, compared to 0.29% and 1.37%, respectively, for the three months ended March 31, 2014.

**Home Loan**

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

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table presents the distribution of our home loan portfolio as of March 31, 2015 and December 31, 2014, based on selected key risk characteristics.

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

(Dollars in millions)	March 31, 2015		Acquired Loans		Total Home Loans	
	Loans Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>
Origination year: <sup>(2)</sup>						
< = 2006	\$2,706	9.4 %	\$5,520	19.1 %	\$8,226	28.5 %
2007	309	1.1	4,648	16.0	4,957	17.1
2008	178	0.6	3,337	11.6	3,515	12.2
2009	104	0.4	1,870	6.4	1,974	6.8
2010	113	0.4	2,864	9.9	2,977	10.3
2011	208	0.7	3,251	11.3	3,459	12.0
2012	1,536	5.3	500	1.7	2,036	7.0
2013	633	2.2	81	0.3	714	2.5
2014	734	2.5	35	0.1	769	2.6
2015	270	0.9	8	0.1	278	1.0
Total	\$6,791	23.5 %	\$22,114	76.5 %	\$28,905	100.0 %
Geographic concentration: <sup>(3)</sup>						
California	\$931	3.2 %	\$5,765	19.9 %	\$6,696	23.1 %
New York	1,363	4.7	1,024	3.5	2,387	8.2
Illinois	93	0.3	1,699	5.9	1,792	6.2
Maryland	464	1.6	1,210	4.2	1,674	5.8
Virginia	395	1.3	1,105	3.9	1,500	5.2
New Jersey	337	1.2	1,134	3.9	1,471	5.1
Florida	162	0.6	1,155	4.0	1,317	4.6
Arizona	90	0.3	1,165	4.0	1,255	4.3
Louisiana	1,171	4.1	36	0.1	1,207	4.2
Washington	105	0.4	985	3.4	1,090	3.8
Other	1,680	5.8	6,836	23.7	8,516	29.5
Total	\$6,791	23.5 %	\$22,114	76.5 %	\$28,905	100.0 %
Lien type:						
1 <sup>st</sup> lien	\$5,776	20.0 %	\$21,766	75.3 %	\$27,542	95.3 %
2 <sup>nd</sup> lien	1,015	3.5	348	1.2	1,363	4.7
Total	\$6,791	23.5 %	\$22,114	76.5 %	\$28,905	100.0 %
Interest rate type:						
Fixed rate	\$2,513	8.7 %	\$2,702	9.3 %	\$5,215	18.0 %
Adjustable rate	4,278	14.8	19,412	67.2	23,690	82.0
Total	\$6,791	23.5 %	\$22,114	76.5 %	\$28,905	100.0 %

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014							
	Loans		Acquired Loans			Total Home Loans		
	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>	Amount	% of Total <sup>(1)</sup>		
Origination year: <sup>(2)</sup>								
<= 2006	\$2,827	9.4 %	\$5,715	19.1 %	\$8,542	28.5 %		
2007	320	1.1	4,766	15.8	5,086	16.9		
2008	187	0.6	3,494	11.7	3,681	12.3		
2009	107	0.4	1,999	6.6	2,106	7.0		
2010	120	0.4	3,108	10.3	3,228	10.7		
2011	221	0.7	3,507	11.7	3,728	12.4		
2012	1,620	5.4	533	1.8	2,153	7.2		
2013	661	2.2	85	0.3	746	2.5		
2014	731	2.4	34	0.1	765	2.5		
Total	\$6,794	22.6 %	\$23,241	77.4 %	\$30,035	100.0 %		
Geographic concentration: <sup>(3)</sup>								
California	\$924	3.1 %	\$6,019	20.0 %	\$6,943	23.1 %		
New York	1,379	4.6	1,073	3.6	2,452	8.2		
Illinois	86	0.3	1,787	5.9	1,873	6.2		
Maryland	457	1.5	1,263	4.2	1,720	5.7		
Virginia	385	1.3	1,153	3.8	1,538	5.1		
New Jersey	341	1.1	1,188	4.0	1,529	5.1		
Florida	161	0.5	1,214	4.1	1,375	4.6		
Arizona	89	0.3	1,215	4.1	1,304	4.4		
Louisiana	1,205	4.0	38	0.1	1,243	4.1		
Washington	109	0.4	1,038	3.4	1,147	3.8		
Other	1,658	5.5	7,253	24.2	8,911	29.7		
Total	\$6,794	22.6 %	\$23,241	77.4 %	\$30,035	100.0 %		
Lien type:								
1 <sup>st</sup> lien	\$5,756	19.2 %	\$22,883	76.2 %	\$28,639	95.4 %		
2 <sup>nd</sup> lien	1,038	3.4	358	1.2	1,396	4.6		
Total	\$6,794	22.6 %	\$23,241	77.4 %	\$30,035	100.0 %		
Interest rate type:								
Fixed rate	\$2,446	8.1 %	\$2,840	9.5 %	\$5,286	17.6 %		
Adjustable rate	4,348	14.5	20,401	67.9	24,749	82.4		
Total	\$6,794	22.6 %	\$23,241	77.4 %	\$30,035	100.0 %		

<sup>(1)</sup> Percentages within each risk category are calculated based on total home loans held for investment.

<sup>(2)</sup> The Acquired Loans origination balances in the years subsequent to 2012 are related to refinancing of previously acquired home loans.

<sup>(3)</sup> Represents the ten states in which we have the highest concentration of home loans.

Our recorded investment in home loans for properties that are in process of foreclosure was \$583 million as of March 31, 2015. We commence the foreclosure process on home loans when a borrower becomes at least 120 days delinquent in accordance with Consumer Financial Protection Bureau regulations. Foreclosure procedures and time

lines vary according to state law. As of March 31, 2015 and December 31, 2014, the carrying value of the foreclosed residential real estate properties which we hold and report as other assets on our consolidated balance sheet totaled \$133 million and \$131 million, respectively.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Commercial Banking

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

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

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

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

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

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of March 31, 2015 and December 31, 2014.

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

(Dollars in millions)	March 31, 2015											
	Commercial and Multifamily Real Estate			Commercial and Industrial			Small-ticket Commercial Real Estate		Total Commercial Banking			
	\$	% of Total <sup>(1)</sup>	%	\$	% of Total <sup>(1)</sup>	%	\$	% of Total <sup>(1)</sup>	\$	% of Total <sup>(1)</sup>		
Geographic concentration: <sup>(2)</sup>												
Loans:												
Northeast	\$14,677	64.3	%	\$6,448	23.7	%	\$452	61.2	%	\$21,577	42.5	%
Mid-Atlantic	2,578	11.3		2,138	7.9		28	3.8		4,744	9.3	
South	3,375	14.8		12,133	44.7		46	6.2		15,554	30.7	
Other	2,201	9.6		6,453	23.7		212	28.8		8,866	17.5	
Total	\$22,831	100.0	%	\$27,172	100.0	%	\$738	100.0	%	\$50,741	100.0	%
Internal risk rating: <sup>(3)</sup>												
Loans:												
Noncriticized	\$22,283	97.6	%	\$25,933	95.4	%	\$722	97.8	%	\$48,938	96.5	%
Criticized performing	508	2.2		1,133	4.2		4	0.6		1,645	3.2	
Criticized nonperforming	40	0.2		106	0.4		12	1.6		158	0.3	
Total	\$22,831	100.0	%	\$27,172	100.0	%	\$738	100.0	%	\$50,741	100.0	%





Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014										
	Commercial and Multifamily Real Estate			Commercial and Industrial			Small-ticket Commercial Real Estate			Total Commercial Banking	
		% of Total <sup>(1)</sup>		% of Total <sup>(1)</sup>		% of Total <sup>(1)</sup>		% of Total <sup>(1)</sup>		% of Total <sup>(1)</sup>	
Geographic concentration: <sup>(2)</sup>											
Loans:											
Northeast	\$15,135	65.4 %	\$6,384	23.7 %	\$478	61.2 %	\$21,997	43.2 %			
Mid-Atlantic	2,491	10.8	2,121	7.9	30	3.8	4,642	9.1			
South	3,070	13.3	12,310	45.6	48	6.2	15,428	30.3			
Other	2,441	10.5	6,157	22.8	225	28.8	8,823	17.4			
Total	\$23,137	100.0 %	\$26,972	100.0 %	\$781	100.0 %	\$50,890	100.0 %			
Internal risk rating: <sup>(3)</sup>											
Loans:											
Noncriticized	\$22,535	97.4 %	\$25,982	96.3 %	\$767	98.2 %	\$49,284	96.9 %			
Criticized performing	540	2.3	884	3.3	7	0.9	1,431	2.8			
Criticized nonperforming	62	0.3	106	0.4	7	0.9	175	0.3			
Total	\$23,137	100.0 %	\$26,972	100.0 %	\$781	100.0 %	\$50,890	100.0 %			

(1) Percentages calculated based on total held for investment commercial loans in each respective loan category as of the end of the reported period.

(2) Northeast consists of CT, ME, MA, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DE, DC, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MS, MO, NC, SC, TN and TX.

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

**Impaired Loans**

The following table presents information about our impaired loans, excluding the impact of Acquired Loans, which is reported separately as of March 31, 2015 and December 31, 2014, and for the three months ended March 31, 2015 and 2014:

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

(Dollars in millions)	March 31, 2015					
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
Credit Card:						
Domestic credit card	\$538	\$0	\$538	\$143	\$395	\$523
International credit card	135	0	135	67	68	130
Total credit card <sup>(2)</sup>	673	0	673	210	463	653
Consumer Banking:						
Auto <sup>(3)</sup>	249	204	453	22	431	717
Home loan	219	146	365	16	349	467
Retail banking	46	8	54	9	45	57
Total consumer banking	514	358	872	47	825	1,241

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Commercial Banking:						
Commercial and multifamily real estate	107	13	120	19	101	134
Commercial and industrial	144	67	211	13	198	231
Total commercial lending	251	80	331	32	299	365
Small-ticket commercial real estate	4	9	13	0	13	15
Total commercial banking	255	89	344	32	312	380
Total	\$1,442	\$ 447	\$1,889	\$ 289	\$1,600	\$2,274

85

Capital One Financial Corporation  
(COF)

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Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014					
	With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
<b>Credit Card:</b>						
Domestic credit card	\$546	\$ 0	\$ 546	\$ 145	\$ 401	\$ 531
International credit card	146	0	146	74	72	141
Total credit card <sup>(2)</sup>	692	0	692	219	473	672
<b>Consumer Banking:</b>						
Auto <sup>(3)</sup>	230	205	435	19	416	694
Home loan	218	149	367	17	350	472
Retail banking	45	5	50	6	44	52
Total consumer banking	493	359	852	42	810	1,218
<b>Commercial Banking:</b>						
Commercial and multifamily real estate	120	26	146	23	123	163
Commercial and industrial	161	55	216	16	200	233
Total commercial lending	281	81	362	39	323	396
Small-ticket commercial real estate	3	5	8	0	8	10
Total commercial banking	284	86	370	39	331	406
Total	\$1,469	\$ 445	\$ 1,914	\$ 300	\$ 1,614	\$ 2,296

(Dollars in millions)	Three Months Ended March 31,			
	2015		2014	
	Average Recorded Investment	Interest Income Recognized	Average Recorded Investment	Interest Income Recognized
<b>Credit Card:</b>				
Domestic credit card	\$542	\$ 14	\$ 596	\$ 15
International credit card	141	2	169	3
Total credit card <sup>(2)</sup>	683	16	765	18
<b>Consumer Banking:</b>				
Auto <sup>(3)</sup>	444	21	363	17
Home loan	366	1	402	1
Retail banking	52	0	83	1
Total consumer banking	862	22	848	19
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	133	1	169	2
Commercial and industrial	213	1	179	1
Total commercial lending	346	2	348	3
Small-ticket commercial real estate	10	0	7	0
Total commercial banking	356	2	355	3
Total	\$1,901	\$ 40	\$ 1,968	\$ 40

(1) Impaired loans include loans modified in TDRs, all nonperforming commercial loans, and nonperforming home loans with a specific impairment.

(2) Credit card loans include finance charges and fees.

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

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Loans modified in TDRs accounted for \$1.6 billion and \$1.7 billion of the impaired loans presented above as of March 31, 2015 and December 31, 2014, respectively. Consumer TDRs classified as performing totaled \$1.0 billion as of both March 31, 2015 and December 31, 2014. Commercial TDRs classified as performing totaled \$186 million and \$194 million as of March 31, 2015 and December 31, 2014, respectively.

As part of our loan modifications to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the types, recorded investment amounts and financial effects of loans modified in TDRs during for the three months ended March 31, 2015 and 2014:

Table 4.10: Troubled Debt Restructurings

(Dollars in millions)	Total Loans Modified <sup>(1)</sup>	Three Months Ended March 31, 2015				Balance Reduction	
		% of TDR Activity <sup>(2)(3)</sup>	Average Rate Reduction <sup>(4)</sup>	% of TDR Activity <sup>(3)(5)</sup>	Average Term Extension (Months) <sup>(6)</sup>	% of TDR Activity <sup>(3)(7)</sup>	Gross Balance Reduction <sup>(8)</sup>
<b>Credit Card:</b>							
Domestic credit card	\$ 72	100	% 12.13	% 0	% 0	0	% \$ 0
International credit card	32	100	25.79	0	0	0	0
Total credit card	104	100	16.39	0	0	0	0
<b>Consumer Banking:</b>							
Auto	88	41	1.71	71	9	28	22
Home loan	7	67	2.85	66	171	0	0
Retail banking	5	61	9.36	91	4	0	0
Total consumer banking	100	44	2.36	72	20	24	22
<b>Commercial Banking:</b>							
Commercial and multifamily real estate	3	0	0.00	100	35	77	1
Commercial and industrial	21	0	2.02	3	7	0	0
Total commercial lending	24	0	2.02	13	29	8	1
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	24	0	2.02	13	29	8	1
Total	\$ 228	65	12.19	33	20	12	\$ 23

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	Total Loans Modified <sup>(1)</sup>	Three Months Ended March 31, 2014				Balance Reduction	
		% of TDR Activity <sup>(2)(3)</sup>	Average Rate Reduction <sup>(4)</sup>	% of TDR Activity <sup>(3)(5)</sup>	Average Term Extension (Months) <sup>(6)</sup>	% of TDR Activity <sup>(3)(7)</sup>	Gross Balance Reduction <sup>(8)</sup>
<b>Credit Card:</b>							
Domestic credit card	\$ 67	100	% 11.50	% 0	% 0	0	% \$ 0
International credit card	43	100	25.20	0	0	0	0
Total credit card	110	100	16.82	0	0	0	0
<b>Consumer Banking:</b>							
Auto	77	40	0.94	67	9	32	22
Home loan	8	19	1.25	30	138	13	1
Retail banking	6	8	4.01	59	6	0	0
Total consumer banking	91	36	1.00	63	14	29	23
<b>Commercial Banking:</b>							
Commercial and multifamily real estate	62	33	1.37	100	8	0	0
Commercial and industrial	1	0	0.00	64	11	0	0
Total commercial lending	63	33	1.37	99	8	0	0
Small-ticket commercial real estate	0	0	0.00	0	0	0	0
Total commercial banking	63	33	1.37	99	8	0	0
Total	\$ 264	62	11.70	46	11	10	\$ 23

(1) Represents total loans modified and accounted for as TDRs during the period. Paydowns, net charge-offs and any other changes in the loan carrying value subsequent to the loan entering TDR status are not reflected.

(2) Represents percentage of loans modified and accounted for as TDRs during the period that were granted a reduced interest rate.

(3) Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

(4) Represents weighted average interest rate reduction for those loans that received an interest rate concession.

(5) Represents percentage of loans modified and accounted for as TDRs during the period that were granted a maturity date extension.

(6) Represents weighted average change in maturity date for those loans that received a maturity date extension.

(7) Represents percentage of loans modified and accounted for as TDRs during the period that were granted forgiveness or forbearance of a portion of their balance.

(8) Total amount represents the gross balance forgiven. For loans modified in bankruptcy, the gross balance reduction represents collateral value write downs associated with the discharge of the borrower's obligations.

**TDR—Subsequent Defaults of Completed TDR Modifications**

The following table presents the type, number and recorded investment amount of loans modified in TDRs that experienced a default during the period and had completed a modification event in the twelve months prior to the default. A default occurs if the loan is either 90 days or more delinquent, has been charged-off as of the end of the period presented, or has been reclassified from accrual to nonaccrual status.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 4.11: TDR - Subsequent Defaults

(Dollars in millions)	Three Months Ended March 31,			
	2015		2014	
	Number of Contracts	Amount	Number of Contracts	Amount
<b>Credit Card:</b>				
Domestic credit card	9,667	\$16	11,061	\$16
International credit card <sup>(1)</sup>	8,548	20	10,521	30
Total credit card	18,215	36	21,582	46
<b>Consumer Banking:</b>				
Auto	1,747	20	1,322	13
Home loan	5	0	6	2
Retail banking	10	1	25	7
Total consumer banking	1,762	21	1,353	22
<b>Commercial Banking:</b>				
Commercial and multifamily real estate	0	0	3	6
Commercial and industrial	0	0	1	0
Total commercial lending	0	0	4	6
Small-ticket commercial real estate	0	0	6	2
Total commercial banking	0	0	10	8
Total	19,977	\$57	22,945	\$76

The regulatory regime in the U.K. requires U.K. credit card businesses to accept payment plan proposals even when the proposed payments are less than the contractual minimum amount. As a result, loans entering long-term TDR payment programs in the U.K. typically continue to age and ultimately charge-off even when fully in compliance with the TDR program terms.

Acquired Loans Accounted for Based on Expected Cash Flows

Outstanding Balance and Carrying Value of Acquired Loans

The table below presents the outstanding balance and the carrying value of loans from the ING Direct, CCB and 2012 U.S. card acquisitions accounted for based on expected cash flows as of March 31, 2015 and December 31, 2014. The table separately displays loans considered credit-impaired at acquisition and loans not considered credit-impaired at acquisition.

Table 4.12: Acquired Loans Accounted for Based on Expected Cash Flows

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Total	Impaired Loans	Non-Impaired Loans	Total	Impaired Loans	Non-Impaired Loans
Outstanding balance	\$24,037	\$4,184	\$19,853	\$25,201	\$4,279	\$20,922
Carrying value <sup>(1)</sup>	22,343	2,808	19,535	23,519	2,882	20,637

Includes \$34 million and \$27 million of allowance for loan and lease losses for these loans as of March 31, 2015 and December 31, 2014, respectively. We recorded a \$7 million provision and \$2 million release of allowance for credit losses for the three months ended March 31, 2015 and 2014, respectively, for certain pools of Acquired Loans.





Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Changes in Accretable Yield

The following table presents changes in the accretable yield on loans related to the CCB, ING Direct, and 2012 U.S. card acquisitions:

Table 4.13: Changes in Accretable Yield on Acquired Loans

(Dollars in millions)	Total Loans	Impaired Loans	Non-Impaired Loans
Accretable yield as of December 31, 2014	\$4,653	\$1,485	\$3,168
Accretion recognized in earnings	(237 )	(87 )	(150 )
Reclassifications from (to) nonaccretable difference for loans with changing cash flows <sup>(1)</sup>	35	45	(10 )
Changes in accretable yield for non-credit related changes in expected cash flows <sup>(2)</sup>	110	84	26
Accretable yield as of March 31, 2015	\$4,561	\$1,527	\$3,034

<sup>(1)</sup> Represents changes in accretable yield for those loans in pools that are driven primarily by credit performance.

<sup>(2)</sup> Represents changes in accretable yield for those loans in pools that are driven primarily by changes in actual and estimated prepayments.

## Unfunded Lending Commitments

We manage the potential risk in credit commitments by limiting the total amount of arrangements, both by individual customer and in total, by monitoring the size and maturity structure of these portfolios and by applying the same credit standards for all of our credit activities. Unused credit card lines available to our customers totaled \$296.6 billion and \$292.9 billion as of March 31, 2015 and December 31, 2014, respectively. While these amounts represented the total available unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time.

In addition to available unused credit card lines, we enter into commitments to extend credit that are legally binding conditional agreements having fixed expirations or termination dates and specified interest rates and purposes. These commitments generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value ("LTV") ratios are the same as those for funded transactions and are established based on management's credit assessment of the customer. These commitments may expire without being drawn upon; therefore, the total commitment amount does not necessarily represent future funding requirements. The outstanding unfunded commitments to extend credit, other than credit card lines, were approximately \$22.7 billion and \$23.6 billion as of March 31, 2015 and December 31, 2014, respectively.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 5—ALLOWANCE FOR LOAN AND LEASE LOSSES

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease losses inherent in our loans held for investment portfolio as of each balance sheet date. In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees, and binding unfunded loan commitments. The provision for unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. See "Note 1—Summary of Significant Accounting Policies" of our 2014 Form 10-K for further discussion on the methodology and policy for determining our allowance for loan and lease losses for each of our loan portfolio segments.

## Allowance for Loan and Lease Losses Activity

The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. The provision for credit losses, which is recorded in earnings, reflects credit losses we believe have been incurred and will eventually be reflected over time in our net charge-offs. Charge-offs of uncollectible amounts are deducted from the allowance for loan and lease losses and subsequent recoveries are included.

We have certain credit card partnership arrangements in which our partner agrees to share in a portion of the credit losses associated with the partnership. The loss sharing amounts due from our partners resulted in reductions in reported charge-offs of \$44 million and \$42 million for the three months ended March 31, 2015 and 2014, respectively, and reductions in the provision for loan and lease losses of \$57 million and \$35 million for the three months ended March 31, 2015 and 2014, respectively. The expected reimbursement from these partners, which is netted against our allowance for loan and lease losses, was approximately \$156 million and \$143 million as of March 31, 2015 and December 31, 2014, respectively. See "Note 1—Summary of Significant Accounting Policies" of our 2014 Form 10-K for further discussion on our card partnership agreements.

The table below summarizes changes in the allowance for loan and lease losses, by portfolio segment, for the three months ended March 31, 2015 and 2014.

Table 5.1: Allowance for Loan and Lease Losses

(Dollars in millions)	Consumer Banking							Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other <sup>(1)</sup>			
Balance as of December 31, 2014	\$3,204	\$661	\$62	\$ 56	\$ 779	\$ 395	\$ 5	\$ 4,383	\$ 113	\$ 4,496
Provision for credit losses	669	184	8	14	206	52	0	927	8	935
Charge-offs	(1,022 )	(233 )	(4 )	(13 )	(250 )	(9 )	(3 )	(1,284 )	0	(1,284 )
Recoveries	303	85	2	4	91	6	3	403	0	403
Net charge-offs	(719 )	(148 )	(2 )	(9 )	(159 )	(3 )	0	(881 )	0	(881 )
Other changes <sup>(2)</sup>	(24 )	0	0	0	0	0	0	(24 )	0	(24 )
Balance as of March 31, 2015	\$3,130	\$697	\$68	\$ 61	\$ 826	\$ 444	\$ 5	\$ 4,405	\$ 121	\$ 4,526



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	Consumer Banking							Total Allowance	Unfunded Lending Commitments Reserve	Combined Allowance & Unfunded Reserve
	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other <sup>(1)</sup>			
Balance as of December 31, 2013	\$3,214	\$606	\$83	\$63	\$752	\$338	\$11	\$4,315	\$87	\$4,402
Provision (benefit) for credit losses	558	136	(6)	10	140	28	(3)	723	12	735
Charge-offs	(1,095)	(205)	(11)	(15)	(231)	(7)	(2)	(1,335)	0	(1,335)
Recoveries	315	71	6	6	83	3	3	404	0	404
Net charge-offs	(780)	(134)	(5)	(9)	(148)	(4)	1	(931)	0	(931)
Other changes <sup>(2)</sup>	(8)	0	0	0	0	0	(1)	(9)	0	(9)
Balance as of March 31, 2014	\$2,984	\$608	\$72	\$64	\$744	\$362	\$8	\$4,098	\$99	\$4,197

(1) Other consists of our discontinued GreenPoint mortgage operations loan portfolio and our community redevelopment loan portfolio.

(2) Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

## Components of Allowance for Loan and Lease Losses by Impairment Methodology

The table below presents the components of our allowance for loan and lease losses, by portfolio segment and impairment methodology, and the recorded investment of the related loans as of March 31, 2015 and December 31, 2014.

Table 5.2: Components of Allowance for Loan and Lease Losses by Impairment Methodology  
March 31, 2015

(Dollars in millions)	Consumer Banking							Total	
	Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other		
Allowance for loan and lease losses:									
Collectively evaluated <sup>(1)</sup>	\$2,920	\$675	\$19	\$52	\$746	\$411	\$5	\$4,082	
Asset-specific <sup>(2)</sup>	210	22	16	9	47	32	0	289	
Acquired Loans <sup>(3)</sup>	0	0	33	0	33	1	0	34	
Total allowance for loan and lease losses	\$3,130	\$697	\$68	\$61	\$826	\$444	\$5	\$4,405	
Loans held for investment:									
Collectively evaluated <sup>(1)</sup>	\$81,060	\$38,688	\$6,426	\$3,444	\$48,558	\$50,237	\$104	\$179,959	
Asset-specific <sup>(2)</sup>	673	249	365	54	668	344	0	1,685	
Acquired Loans <sup>(3)</sup>	21	0	22,114	39	22,153	160	0	22,334	
Total loans held for investment	\$81,754	\$38,937	\$28,905	\$3,537	\$71,379	\$50,741	\$104	\$203,978	
Allowance as a percentage of period-end loans held for investment	3.83	% 1.79	% 0.23	% 1.74	% 1.16	% 0.87	% 4.48	% 2.16	%



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014							Total
	Consumer Banking				Total Consumer Banking	Commercial Banking	Other	
	Credit Card	Auto	Home Loan	Retail Banking				
Allowance for loan and lease losses:								
Collectively evaluated <sup>(1)</sup>	\$2,985	\$642	\$18	\$50	\$710	\$356	\$5	\$4,056
Asset-specific <sup>(2)</sup>	219	19	17	6	42	39	0	300
Acquired Loans <sup>(3)</sup>	0	0	27	0	27	0	0	27
Total allowance for loan and lease losses	\$3,204	\$661	\$62	\$56	\$779	\$395	\$5	\$4,383
Loans held for investment:								
Collectively evaluated <sup>(1)</sup>	\$85,161	\$37,594	\$6,427	\$3,486	\$47,507	\$50,328	\$111	\$183,107
Asset-specific <sup>(2)</sup>	692	230	367	50	647	370	0	1,709
Acquired Loans <sup>(3)</sup>	23	0	23,241	44	23,285	192	0	23,500
Total loans held for investment	\$85,876	\$37,824	\$30,035	\$3,580	\$71,439	\$50,890	\$111	\$208,316
Allowance as a percentage of period-end loans held for investment	3.73	% 1.75	% 0.21	% 1.58	% 1.09	% 0.78	% 4.68	% 2.10

The component of the allowance for loan and lease losses for credit card and other consumer loans that we collectively evaluate for impairment is based on a statistical calculation supplemented by management judgment and interpretation. The component of the allowance for loan and lease losses for commercial loans, which we collectively evaluate for impairment, is based on historical loss experience for loans with similar characteristics and consideration of credit quality supplemented by management judgment and interpretation.

The asset-specific component of the allowance for loan and lease losses for smaller-balance impaired loans is calculated on a pool basis using historical loss experience for the respective class of assets. The asset-specific component of the allowance for loan and lease losses for larger-balance commercial loans is individually calculated for each loan.

The Acquired Loans component of the allowance for loan and lease losses is accounted for based on expected cash flows. See "Note 1—Summary of Significant Accounting Policies" in our 2014 Form 10-K for details on these loans.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 6—VARIABLE INTEREST ENTITIES AND SECURITIZATIONS

In the normal course of business, we enter into various types of transactions with entities that are considered to be VIEs. Our primary involvement with VIEs has been related to our securitization transactions in which we transferred assets from our balance sheet to securitization trusts. We have primarily securitized credit card loans and home loans, which have provided a source of funding for us and enabled us to transfer a certain portion of the economic risk of the loans or debt securities to third parties.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The majority of the VIEs in which we are involved have been consolidated on our financial statements.

## Summary of Consolidated and Unconsolidated VIEs

The table below presents a summary of VIEs, aggregated based on VIEs with similar characteristics, in which we had continuing involvement or held a variable interest as of March 31, 2015 and December 31, 2014. We separately present information for consolidated and unconsolidated VIEs.

For consolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets. The assets of consolidated VIEs primarily consist of cash and loans, which we report on our consolidated balance sheets under restricted cash and restricted loans, respectively, for securitization investors. The assets of a particular VIE are the primary source of funds to settle its obligations. The creditors of the VIEs typically do not have recourse to the general credit of the Company. The liabilities primarily consist of debt securities issued by the VIEs, which we report under securitized debt obligations. For unconsolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets and our maximum exposure to loss. Our maximum exposure to loss is estimated based on the unlikely event that all of the assets in the VIEs become worthless and we are required to meet our maximum remaining funding obligations.

Table 6.1: Carrying Amount of Consolidated and Unconsolidated VIEs

(Dollars in millions)	March 31, 2015				Maximum Exposure to Loss
	Consolidated		Unconsolidated		
	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	
Securitization-related VIEs:					
Credit card loan securitizations <sup>(1)</sup>	\$34,172	\$13,425	\$0	\$0	\$0
Home loan securitizations <sup>(2)</sup>	0	0	223	28	892
Total securitization-related VIEs	34,172	13,425	223	28	892
Other VIEs:					
Affordable housing entities	0	0	3,502	463	3,502
Entities that provide capital to low-income and rural communities	384	100	0	0	0
Other	0	0	70	0	70
Total other VIEs	384	100	3,572	463	3,572
Total VIEs	\$34,556	\$13,525	\$3,795	\$491	\$4,464



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014				Maximum Exposure to Loss
	Consolidated		Unconsolidated		
	Carrying Amount of Assets	Carrying Amount of Liabilities	Carrying Amount of Assets	Carrying Amount of Liabilities	
Securitization-related VIEs:					
Credit card loan securitizations <sup>(1)</sup>	\$36,779	\$12,350	\$0	\$0	\$0
Home loan securitizations <sup>(2)</sup>	0	0	221	31	876
Total securitization-related VIEs	36,779	12,350	221	31	876
Other VIEs:					
Affordable housing entities	0	0	3,500	488	3,500
Entities that provide capital to low-income and rural communities	374	99	1	0	1
Other	4	0	74	0	74
Total other VIEs	378	99	3,575	488	3,575
Total VIEs	\$37,157	\$12,449	\$3,796	\$519	\$4,451

(1) Represents the gross amount of assets and liabilities owned by the VIE, which includes seller's interest and retained and repurchased notes held by other related parties.

The carrying amount of assets of unconsolidated securitization-related VIEs consists of retained interests associated with the securitization of option-adjustable rate mortgage loans ("option-ARM") and letters of credit related to manufactured housing securitizations. These are reported on our consolidated balance sheets under other assets. The carrying amount of liabilities of unconsolidated securitization-related VIEs is comprised of obligations on certain swap agreements associated with the securitization of manufactured housing loans and other obligations. These are reported on our consolidated balance sheets under other liabilities.

**Securitization-Related VIEs**

In a securitization transaction, assets from our balance sheet are transferred to a trust we establish, which typically meets the definition of a VIE. Our continuing involvement in the majority of our securitization transactions consists primarily of holding certain retained interests and acting as the primary servicer. We have the option to repurchase receivables from the trust if the outstanding balance of the receivables falls to a level where the cost exceeds the benefits of servicing such receivables. In some cases, we are contractually required to exercise the repurchase option if the primary servicer fails to do so. We also may have exposure associated with contractual obligations to repurchase previously transferred loans due to breaches of representations and warranties. See "Note 14—Commitments, Contingencies, Guarantees and Others" for information related to reserves we have established for our mortgage representation and warranty exposure.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The table below presents the securitization-related VIEs in which we had continuing involvement as of March 31, 2015 and December 31, 2014.

Table 6.2: Continuing Involvement in Securitization-Related VIEs

(Dollars in millions)	Non-Mortgage		Mortgage		GreenPoint Manufactured Housing
	Credit Card	Option ARM	GreenPoint HELOCs		
March 31, 2015:					
Securities held by third-party investors	\$ 12,717	\$ 1,971	\$ 90		\$ 862
Receivables in the trust	33,938	2,037	84		868
Cash balance of spread or reserve accounts	0	8	N/A		145
Retained interests	Yes	Yes	Yes		Yes
Servicing retained	Yes	Yes	(1) No		No (2)
Amortization event <sup>(3)</sup>	No	No	No		No
December 31, 2014:					
Securities held by third-party investors	\$ 11,624	\$ 2,026	\$ 95		\$ 887
Receivables in the trust	36,545	2,094	89		893
Cash balance of spread or reserve accounts	0	8	N/A		143
Retained interests	Yes	Yes	Yes		Yes
Servicing retained	Yes	Yes	(1) No	(1)	No (2)
Amortization event <sup>(3)</sup>	No	No	No		No

(1) We retained servicing of the outstanding balance for a portion of securitized mortgage receivables.

(2) The core servicing activities for the manufactured housing securitizations are completed by a third party.

Amortization events vary according to each specific trust agreement but generally are triggered by declines in performance or credit metrics, such as net charge-off rates or delinquency rates, below certain predetermined thresholds. Generally, the occurrence of an amortization event changes the sequencing and amount of trust-related cash flows to the benefit of senior noteholders.

**Non-Mortgage Securitizations**

As of March 31, 2015 and December 31, 2014, we were deemed to be the primary beneficiary of all of our non-mortgage securitization trusts. Accordingly, all of these trusts have been consolidated in our financial statements.

**Mortgage Securitizations****Option-ARM Loans**

We had previously securitized option-ARM loans by transferring the mortgage loans to securitization trusts that had issued mortgage-backed securities to investors. The outstanding balance of debt securities held by third-party investors related to our mortgage loan securitization trusts was \$2.0 billion as of both March 31, 2015 and December 31, 2014.

We continue to service a portion of the outstanding balance of securitized mortgage receivables. We also retain rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by the trusts. We generally estimate the fair value of these retained interests based on the estimated present value of expected future cash flows from securitized and sold receivables, using our best estimates of the key assumptions which include credit losses, prepayment speeds and discount rates commensurate with the risks involved. For the trusts that we continue to service, we do not consolidate these entities because we do not have the right to receive benefits nor the obligation to absorb losses that could potentially be significant to the trusts. For the remaining trusts,

for which we no longer service the underlying mortgage loans, we do not consolidate these entities since we do not have the power to direct the activities that most significantly impact the economic performance of the trusts. In connection with the securitization of certain option-ARM loans, a third party is obligated to advance a portion of any “negative amortization” resulting from monthly payments that are less than the interest accrued for that payment period. We have an agreement in place with the third party that mirrors this advance requirement. The amount advanced is tracked through mortgage-backed

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

securities retained as part of the securitization transaction. As advances occur, we record an asset in the form of negative amortization bonds, which are held at fair value in other assets on our consolidated balance sheets. Our maximum exposure is affected by rate caps and monthly payment change caps, but the funding obligation cannot exceed the difference between the original loan balance multiplied by a preset negative amortization cap and the current unpaid principal balance.

We have also entered into certain derivative contracts related to the securitization activities. These are classified as free-standing derivatives, with fair value adjustments recorded in non-interest income in our consolidated statements of income. See “Note 9—Derivative Instruments and Hedging Activities” for further details on these derivatives.

GreenPoint Mortgage Home Equity Lines of Credit (“HELOCs”)

Our discontinued wholesale mortgage banking unit, GreenPoint, previously sold HELOCs in whole loan sales and subsequently acquired residual interests in certain trusts which securitized some of those loans. We do not consolidate these trusts because we either lack the power to direct the activities that most significantly impact the economic performance of the trusts or because we do not have the right to receive benefits or the obligation to absorb losses that could potentially be significant to the trusts. As the residual interest holder, GreenPoint is required to fund advances on the HELOCs when certain performance triggers are met due to deterioration in asset performance. On behalf of GreenPoint, we have funded cumulative advances of \$30 million as of both March 31, 2015 and December 31, 2014. These advances are generally expensed as funded due to the low likelihood of recovery. We also have unfunded commitments of \$6 million related to those interests for our non-consolidated VIEs as of both March 31, 2015 and December 31, 2014.

GreenPoint Credit Manufactured Housing

We retain the primary obligation for certain provisions of corporate guarantees, recourse sales and clean-up calls related to the discontinued manufactured housing operations of GreenPoint Credit, LLC, which was a subsidiary of GreenPoint and was sold to a third party in 2004. Although we are the primary obligor, recourse obligations related to aforementioned whole loan sales, commitments to exercise mandatory clean-up calls on certain securitization transactions and servicing were transferred to a third party in the sale transaction. We do not consolidate the trusts used for the securitization of manufactured housing loans because we do not have the power to direct the activities that most significantly impact the economic performance of the trusts since we no longer service the loans.

We were required to fund letters of credit in 2004 to cover losses and are obligated to fund future amounts under swap agreements for certain transactions. We have the right to receive any funds remaining in the letters of credit after the securities are released.

The unpaid principal balance of manufactured housing securitization transactions where we are the residual interest holder was \$868 million and \$893 million as of March 31, 2015 and December 31, 2014, respectively. In the event the third-party servicer does not fulfill its obligation to exercise the clean-up calls on certain transactions, the obligation reverts to us and we would assume approximately \$420 million of loans receivable upon our execution of the clean-up call with the requirement to absorb any losses on the loans receivable.

We monitor the underlying assets for trends in delinquencies and related losses and review the purchaser’s financial strength as well as servicing performance. These factors are considered in assessing the adequacy of the liabilities established for these obligations and the valuations of the assets.

Other VIEs

Affordable Housing Entities

As part of our community reinvestment initiatives, we invest in private investment funds that make equity investments in multi-family affordable housing properties. We receive affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt.

We account for certain of our investments in qualified affordable housing projects using the proportional amortization method if certain criteria are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. For the three months ended March 31, 2015 and 2014, we recognized amortization

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

of \$86 million and \$74 million, respectively, and tax credits of \$102 million and \$90 million, respectively, associated with these investments within income taxes. The carrying value of our investments in these qualified affordable housing projects was \$3.2 billion as of both March 31, 2015 and December 31, 2014. We are periodically required to provide additional financial or other support during the period of the investments. We recorded a liability of \$1.2 billion for these unfunded commitments as of March 31, 2015, which is expected to be paid from 2015 to 2018. For those investment funds considered to be VIEs, we are not required to consolidate them if we do not have the power to direct the activities that most significantly impact the economic performance of those entities. We record our interests in these unconsolidated VIEs in loans held for investment, other assets and other liabilities on our consolidated balance sheets. Our interests consisted of assets of approximately \$3.5 billion as of both March 31, 2015 and December 31, 2014. Our maximum exposure to these entities is limited to our variable interests in the entities was \$3.5 billion as of both March 31, 2015 and December 31, 2014. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support other than during the period that we are contractually required to provide. The total assets of the unconsolidated VIE investment funds were \$10.2 billion as of both March 31, 2015 and December 31, 2014.

**Entities that Provide Capital to Low-Income and Rural Communities**

We hold variable interests in entities (“Investor Entities”) that invest in community development entities (“CDEs”) that provide debt financing to businesses and non-profit entities in low-income and rural communities. Variable interests in the CDEs held by the consolidated Investor Entities are also our variable interests. The activities of the Investor Entities are financed with a combination of invested equity capital and debt. The activities of the CDEs are financed solely with invested equity capital. We receive federal and state tax credits for these investments. We consolidate the VIEs in which we have the power to direct the activities that most significantly impact the VIE’s economic performance and the obligation to absorb losses or right to receive benefits that could be potentially significant to the VIE. We have also consolidated other investments and CDEs that are not considered to be VIEs, but where we hold a controlling financial interest. The assets of the VIEs that we consolidated, which totaled approximately \$384 million and \$374 million as of March 31, 2015 and December 31, 2014, respectively, are reflected on our consolidated balance sheets in cash, loans held for investment, interest receivable and other assets. The liabilities are reflected in other liabilities. The creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide.

**Other**

Other VIEs include a variable interest that we hold in a trust that has a royalty interest in certain oil and gas properties. The activities of the trust are financed solely with debt. The total assets of the trust were \$149 million and \$159 million as of March 31, 2015 and December 31, 2014, respectively. We were not required to consolidate the trust because we do not have the power to direct the activities of the trust that most significantly impact the trust’s economic performance. Our maximum exposure to this entity is limited to our retained interest of \$70 million and \$74 million as of March 31, 2015 and December 31, 2014, respectively. The creditors of the trust have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 7—GOODWILL AND INTANGIBLE ASSETS

The table below displays the components of goodwill, intangible assets and MSRs as of March 31, 2015 and December 31, 2014. Goodwill is presented separately on our consolidated balance sheets. Intangible assets and MSRs are included in other assets on our consolidated balance sheets.

Table 7.1: Components of Goodwill, Intangible Assets and MSRs

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Carrying Amount of Assets <sup>(1)</sup>	Accumulated Amortization <sup>(1)</sup>	Net Carrying Amount	Carrying Amount of Assets <sup>(1)</sup>	Accumulated Amortization <sup>(1)</sup>	Net Carrying Amount
Goodwill	\$13,978	N/A	\$13,978	\$13,978	N/A	\$13,978
Intangible assets:						
Purchased credit card relationship (“PCCR”) intangibles	2,147	\$ (1,235 )	912	2,124	\$ (1,152 )	972
Core deposit intangibles	1,771	(1,596 )	175	1,771	(1,569 )	202
Other <sup>(2)</sup>	239	(114 )	125	300	(158 )	142
Total intangible assets	4,157	(2,945 )	1,212	4,195	(2,879 )	1,316
Total goodwill and intangible assets	\$18,135	\$ (2,945 )	\$15,190	\$18,173	\$ (2,879 )	\$15,294
MSRs:						
Consumer MSRs <sup>(3)</sup>	\$53	N/A	\$53	\$53	N/A	\$53
Commercial MSRs <sup>(4)</sup>	177	\$ (30 )	147	171	\$ (24 )	147
Total MSRs	\$230	\$ (30 )	\$200	\$224	\$ (24 )	\$200

(1) Certain intangible assets that were fully amortized in prior periods were removed from our consolidated balance sheets.

Primarily consists of brokerage relationship intangibles, partnership and other contract intangibles and tradename

(2) intangibles. Also includes certain indefinite-lived intangibles of \$4 million as of both March 31, 2015 and December 31, 2014.

(3) Represents MSRs related to our Consumer Banking business that are carried at fair value on our consolidated balance sheets.

Represents MSRs related to our Commercial Banking business that are subsequently measured under the

(4) amortization method and periodically assessed for impairment. None of these MSRs were impaired during the three months ended March 31, 2015 and 2014 and no valuation allowance was recorded as of March 31, 2015 and December 31, 2014.

Amortization expense for amortizable intangible assets, which is presented separately in our consolidated statements of income, totaled \$110 million and \$143 million for the three months ended March 31, 2015 and 2014, respectively.

## Goodwill

The following table presents goodwill attributable to each of our business segments as of March 31, 2015 and December 31, 2014.

Table 7.2: Goodwill Attributable to Business Segments

(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Total
Balance as of December 31, 2014	\$5,001	\$4,593	\$4,384	\$13,978
Acquisitions	0	5	0	5
Other adjustments	(5 )	0	0	(5 )

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Balance as of March 31, 2015	\$4,996	\$4,598	\$4,384	\$13,978
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99

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Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 8—DEPOSITS AND BORROWINGS

Deposits

Our deposits, which are our largest source of funding for our operations and asset growth, consist of non-interest bearing and interest-bearing deposits, which include checking accounts, money market deposit accounts, negotiable order of withdrawals, saving deposits, and time deposits.

Securitized and Unsecured Debt Obligations

We use a variety of funding sources other than deposits, including short-term borrowings, the issuance of senior and subordinated notes and other borrowings, and securitization transactions. In addition, we utilize FHLB advances, which are secured by certain portions of our loan and investment securities portfolios, for our funding needs. The securitization debt obligations are separately presented on our consolidated balance sheets, while federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including FHLB advances, are included in other debt on our consolidated balance sheets.

Securitized Debt Obligations

Our outstanding borrowings due to securitization investors were \$12.7 billion and \$11.6 billion as of March 31, 2015 and December 31, 2014, respectively. During the first quarter of 2015, \$1.3 billion of new debt was issued to third-party investors from our loan securitization trusts, offset by \$175 million of debt maturities.

Senior and Subordinated Notes

As of March 31, 2015, we had \$20.6 billion of senior and subordinated notes outstanding, net of fair value hedging losses of \$303 million. As of December 31, 2014, we had \$18.7 billion of senior and subordinated notes outstanding, net of fair value hedging losses of \$179 million. During the first quarter of 2015, we issued \$3.0 billion of long-term senior unsecured debt, comprised of \$400 million of floating rate notes and \$2.6 billion of fixed rate notes. During the first quarter of 2015, \$1.3 billion of outstanding unsecured notes matured. See “Note 9—Derivative Instruments and Hedging Activities” for information about our fair value hedging activities.

FHLB Advances and Other

In addition to the issuance capacity under the registration statement, we also have access to funding through the FHLB system and the Federal Reserve Discount Window. Our FHLB and Federal Reserve memberships require us to hold FHLB and Federal Reserve stock which totaled \$1.5 billion and \$2.0 billion as of March 31, 2015 and December 31, 2014, respectively, and are included in other assets on our consolidated balance sheets.

We had outstanding FHLB advances and lines of credit, which were secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and HELOCs, totaling \$6.8 billion and \$17.3 billion as of March 31, 2015 and December 31, 2014, respectively. We did not access the Federal Reserve Discount Window for funding during 2015 or 2014.

Composition of Deposits, Short-Term Borrowings and Long-Term Debt

The table below summarizes the components of our deposits, short-term borrowings and long-term debt as of March 31, 2015 and December 31, 2014. Our total short-term borrowings consist of federal funds purchased and securities loaned or sold under agreements to repurchase and other short-term borrowings with an original contractual maturity of one year or less. Our long-term debt consists of borrowings with an original contractual maturity of greater than one year. The amounts presented for outstanding borrowings include unamortized debt premiums and discounts, net of fair value hedge accounting adjustments.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 8.1: Components of Deposits, Short-Term Borrowings and Long-Term Debt

(Dollars in millions)				March 31, 2015	December 31, 2014
Deposits:					
Non-interest bearing deposits				\$25,232	\$ 25,081
Interest-bearing deposits				185,208	180,467
Total deposits				\$210,440	\$ 205,548
Short-term borrowings:					
Federal funds purchased and securities loaned or sold under agreements to repurchase				\$933	\$ 880
FHLB advances				5,750	16,200
Total short-term borrowings				\$6,683	\$ 17,080
	March 31, 2015				
(Dollars in millions)	Maturity Date	Interest Rate	Weighted Average Interest Rate	Outstanding Amount	December 31, 2014
Long-term debt:					
Securitized debt obligations <sup>(1)</sup>	2015 -2025	0.21 - 5.75%	1.35	% \$ 12,717	\$ 11,624
Senior and subordinated notes: <sup>(1)</sup>					
Fixed unsecured senior debt	2015 - 2025	1.00 - 6.75%	2.73	16,624	15,174
Floating unsecured senior debt	2015 - 2018	0.71 - 0.94%	0.84	1,280	880
Total unsecured senior debt			2.60	17,904	16,054
Fixed unsecured subordinated debt	2016 - 2023	3.38 - 8.80%	4.97	2,655	2,630
Total senior and subordinated notes				20,559	18,684
Other long-term borrowings:					
FHLB advances	2015 - 2023	0.22 - 6.88%	0.55	1,070	1,069
Total long-term debt				34,346	31,377
Total short-term borrowings and long-term debt				\$ 41,029	\$ 48,457

<sup>(1)</sup> Outstanding amount includes the impact from hedge accounting.

## Components of Interest Expense

The following table displays interest expense attributable to short-term borrowings and long-term debt for the three months ended March 31, 2015 and 2014:

Table 8.2: Components of Interest Expense on Short-Term Borrowings and Long-Term Debt

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Short-term borrowings:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	\$0	\$0
FHLB advances	8	6

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Total short-term borrowings	8	6
Long-term debt:		
Securitized debt obligations <sup>(1)</sup>	33	38
Senior and subordinated notes <sup>(1)</sup>	79	77
Other long-term borrowings	7	6
Total long-term debt	119	121
Total interest expense on short-term borrowings and long-term debt	\$127	\$127

<sup>(1)</sup> Interest expense includes the impact from hedge accounting.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 9—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES

## Use of Derivatives

We manage our asset and liability position and market risk exposure in accordance with prescribed risk management policies and limits established by our Market and Liquidity Risk Policy which is approved by our Board of Directors. Our primary market risk stems from the impact on our earnings and economic value of equity from changes in interest rates and, to a lesser extent, changes in foreign exchange rates. We employ several techniques to manage our interest rate sensitivity, which include changing the duration and re-pricing characteristics of various assets and liabilities by using interest rate derivatives. Our current asset and liability management policy also includes the use of derivatives to hedge foreign currency denominated exposures to limit our earnings and capital ratio exposure to foreign exchange risk. We execute our derivative contracts in both the over-the-counter (“OTC”) and exchange-traded derivative markets. The majority of our derivatives are interest rate swaps. In addition, we may use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign exchange risk. We offer various derivatives to our customers as part of our Commercial Banking business but usually offset our exposure through derivative transactions with other counterparties. We also enter into interest rate and foreign exchange derivative contracts with our commercial lending customers as a customer accommodation.

## Accounting for Derivatives

Our derivatives are designated as either qualifying accounting hedges or free-standing derivatives. Free-standing derivatives primarily consist of customer-accommodation derivatives and economic hedges that do not qualify for hedge accounting. Qualifying accounting hedges are designated as fair value hedges, cash flow hedges or net investment hedges.

**Fair Value Hedges:** We designate derivatives as fair value hedges to manage our exposure to changes in the fair value of certain financial assets and liabilities, which fluctuate in value as a result of movements in interest rates. Changes in the fair value of derivatives designated as fair value hedges are recorded in earnings together with offsetting changes in the fair value of the hedged item and any resulting ineffectiveness. Our fair value hedges consist of interest rate swaps that are intended to modify our exposure to interest rate risk on various fixed-rate assets and liabilities.

**Cash Flow Hedges:** We designate derivatives as cash flow hedges to manage our exposure to variability in cash flows related to forecasted transactions. Changes in the fair value of derivatives designated as cash flow hedges are recorded as a component of AOCI, to the extent that the hedge relationships are effective, and amounts are reclassified from AOCI to earnings as the forecasted transactions impact earnings. To the extent that any ineffectiveness exists in the hedge relationships, the amounts are recorded in current period earnings. Our cash flow hedges consist of interest rate swaps that are intended to hedge the variability in interest payments on some of our variable-rate assets through 2020. These hedges have the effect of converting some of our variable-rate assets to a fixed rate. We also have entered into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency denominated intercompany borrowings.

**Net Investment Hedges:** We use net investment hedges to manage the foreign currency exposure related to our net investments in foreign operations that have functional currencies other than the U.S. dollar. Changes in the fair value of net investment hedges are recorded in the translation adjustment component of AOCI, offsetting the translation gain or loss from those foreign operations. During 2014, we executed net investment hedges using foreign exchange forward contracts to hedge the translation exposure of the net investment in our foreign operations.

**Free-Standing Derivatives:** We use free-standing derivatives to hedge the risk of changes in the fair value of residential MSRs, mortgage loan origination and purchase commitments and other interests held. We also categorize our customer accommodation derivatives and the related offsetting contracts as free-standing derivatives. Changes in the fair value of free-standing derivatives are recorded in earnings as a component of other non-interest income.

## Balance Sheet Presentation

As of January 1, 2015, we changed our accounting principle to move from a gross basis of presentation to a net basis, for presenting qualifying derivative assets and liabilities, as well as the related fair value amounts recognized for the right to reclaim cash collateral (a receivable) or the obligation to return cash collateral (a payable), for instruments executed with the same counterparty where a

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

right of setoff exists. See additional information in “Note 1—Summary of Significant Accounting Policies.” The following table summarizes the notional and fair values of our derivative instruments on a gross basis as of March 31, 2015 and December 31, 2014, which are segregated by derivatives that are designated as accounting hedges and those that are not, and are further segregated by type of contract within those two categories. The total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and any associated cash collateral received or paid.

Table 9.1: Derivative Assets and Liabilities at Fair Value

(Dollars in millions)	March 31, 2015			December 31, 2014		
	Notional or Contractual Amount	Derivative <sup>(1)</sup> Assets	Derivative <sup>(1)</sup> Liabilities	Notional or Contractual Amount	Derivative <sup>(1)</sup> Assets	Derivative <sup>(1)</sup> Liabilities
Derivatives designated as accounting hedges:						
Interest rate contracts:						
Fair value hedges	\$26,793	\$577	\$47	\$24,543	\$480	\$39
Cash flow hedges	25,210	437	13	24,450	222	18
Total interest rate contracts	52,003	1,014	60	48,993	702	57
Foreign exchange contracts:						
Cash flow hedges	5,140	340	1	5,546	221	2
Net investment hedges	2,408	51	0	2,476	73	0
Total foreign exchange contracts	7,548	391	1	8,022	294	2
Total derivatives designated as accounting hedges	59,551	1,405	61	57,015	996	59
Derivatives not designated as accounting hedges:						
Interest rate contracts covering:						
MSRs <sup>(2)</sup>	1,028	13	5	777	10	3
Customer accommodation	27,918	485	329	27,646	413	251
Other interest rate exposures <sup>(3)</sup>	2,740	36	21	2,614	33	21
Total interest rate contracts	31,686	534	355	31,037	456	275
Other contracts	586	0	6	593	0	5
Total derivatives not designated as accounting hedges	32,272	534	361	31,630	456	280
Total derivatives	\$91,823	\$1,939	\$422	\$88,645	\$1,452	\$339
Less: netting adjustment <sup>(4)</sup>		(666)	(165)		(624)	(164)
Total derivative assets/liabilities		\$1,273	\$257		\$828	\$175

(1) Derivative assets and liabilities include interest accruals.

(2) Includes interest rate swaps and To Be Announced (“TBA”) contracts.

(3) Other interest rate exposures include mortgage related derivatives.

(4) Represents balance sheet netting of derivative assets and liabilities, and related receivables, payables, and cash collateral. See Table 9.2 for further information.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Offsetting of Financial Assets and Liabilities

We execute the majority of our derivative transactions and repurchase agreements under master netting arrangements. Under our existing enforceable master netting arrangements, we generally have the right to offset exposure with the same counterparty. In addition, either counterparty can generally request the net settlement of all contracts through a single payment upon default on, or termination of, any one contract. As of January 1, 2015, the Company changed its accounting principle to begin offsetting derivative assets and liabilities for purposes of balance sheet presentation where a right of setoff exists. As of March 31, 2015 and December 31, 2014, derivative contracts that are executed bilaterally with a counterparty in the OTC market and then novated to and cleared through a central clearing house, are not subject to offsetting due to current uncertainty about the legal enforceability of our right of setoff with the clearinghouses.

The following table presents as of March 31, 2015 and December 31, 2014, the gross and net fair values of our derivative assets and liabilities and repurchase agreements, as well as the related offsetting amount permitted under U.S. GAAP. The table also includes cash and non-cash collateral received or pledged associated with such arrangements. The collateral amounts shown are limited to the extent of the related net derivative fair values or outstanding balances, thus instances of over-collateralization are not shown.

Table 9.2: Offsetting of Financial Assets and Financial Liabilities

(Dollars in millions)	Gross Amounts	Gross Amounts Offset in the Balance Sheet		Net Amounts as Recognized	Securities Collateral Held Under Master Netting Agreements		Net Exposure
		Financial Instruments	Cash Collateral Received				
As of March 31, 2015							
Derivatives assets <sup>(1)</sup>	\$1,939	\$(70 )	\$(596 )	\$1,273	\$(121 )		\$1,152
As of December 31, 2014							
Derivatives assets <sup>(1)</sup>	\$1,452	\$(101 )	\$(523 )	\$828	\$(80 )		\$748
(Dollars in millions)	Gross Amounts	Gross Amounts Offset in the Balance Sheet		Net Amounts as Recognized	Securities Collateral Pledged Under Master Netting Agreements		Net Exposure
		Financial Instruments	Cash Collateral Pledged				
As of March 31, 2015							
Derivatives liabilities <sup>(1)</sup>	\$422	\$(70 )	\$(95 )	\$257	\$0		\$257
Repurchase agreements <sup>(2)</sup>	924	0	0	924	(924 )		0
As of December 31, 2014							
Derivatives liabilities <sup>(1)</sup>	\$339	\$(101 )	\$(63 )	\$175	\$0		\$175
Repurchase agreements <sup>(2)</sup>	869	0	0	869	(869 )		0

The gross balances include derivative assets and derivative liabilities as of March 31, 2015 totaling \$650 million and \$207 million, respectively, related to the centrally cleared derivative contracts. The comparable amounts as of December 31, 2014 totaled \$360 million and \$127 million, respectively. These contracts were not subject to offsetting as of March 31, 2015 and December 31, 2014.

(2) As of March 31, 2015 and December 31, 2014, the Company only had repurchase obligations outstanding and did not have any reverse repurchase receivables.

Credit Risk-Related Contingency Features and Collateral



Certain of our derivatives contracts include provisions requiring that our debt maintain a credit rating of investment grade or above by each of the major credit rating agencies. In the event of a downgrade of our debt credit rating below investment grade, some of our derivatives counterparties would have the right to terminate the derivative contract and close out the existing positions, or demand immediate and ongoing full overnight collateralization on derivative instruments in a net liability position. Certain of our derivatives contracts may also allow, in the event of a downgrade of our debt credit rating of any kind, our derivatives counterparties to demand additional collateralization on such derivatives instruments in a net liability position. We posted \$171 million and \$87 million of cash collateral as of March 31, 2015 and December 31, 2014, respectively. If our debt credit rating had fallen below investment grade, we would have been required to post an additional variation margin, which represents the impact of daily position

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

mark-to-market calculations, of less than \$1 million as of both March 31, 2015 and December 31, 2014. In addition, we would have been required to post independent margin of \$60 million and \$65 million as of March 31, 2015 and December 31, 2014, respectively, in compliance with the terms of certain of our swap agreements. The fair value of derivatives instruments with credit-risk-related contingent features in a net liability position was \$1 million and less than \$1 million as of March 31, 2015 and December 31, 2014, respectively.

**Derivatives Counterparty Credit Risk**

Derivatives instruments contain an element of credit risk that arises from the potential failure of a counterparty to perform according to the contractual terms of the contract. Our exposure to derivatives counterparty credit risk, at any point in time, is represented by the fair value of derivatives in a gain position, or derivatives assets, assuming no recoveries of underlying collateral. To mitigate the risk of counterparty default, we enter into legally enforceable master netting agreements and maintain collateral agreements with certain derivative counterparties. We generally enter into these agreements on a bilateral basis with our counterparties, however since June 2013 we have begun to clear eligible OTC derivatives through a central clearinghouse in accordance with the requirements of the Dodd-Frank Act. These agreements typically provide for the right to offset exposures and require both parties to maintain collateral in the event the fair values of derivative financial instruments exceed established thresholds. We received cash collateral from derivatives counterparties totaling \$994 million and \$695 million as of March 31, 2015 and December 31, 2014, respectively. We also received securities from derivatives counterparties totaling \$137 million and \$91 million as of March 31, 2015 and December 31, 2014, respectively, which we have the ability to re-pledge. We record counterparty credit risk valuation adjustments on our derivative assets to properly reflect the credit quality of the counterparty. We consider collateral and legally enforceable master netting agreements that mitigate our credit exposure to each counterparty in determining the counterparty credit risk valuation adjustment, which may be adjusted in future periods due to changes in the fair value of the derivatives contracts, collateral and creditworthiness of the counterparty. The cumulative counterparty credit risk valuation adjustment recorded on our consolidated balance sheets as a reduction in the derivatives asset balance was \$5 million as of both March 31, 2015 and December 31, 2014. We also adjust the fair value of our derivatives liabilities to reflect the impact of our own credit quality. We calculate this adjustment by comparing the spreads on our credit default swaps to the discount benchmark curve. The cumulative credit risk valuation adjustment related to our credit quality recorded on our consolidated balance sheets as a reduction in the derivative liability balance was less than \$1 million and \$1 million as of March 31, 2015 and December 31, 2014, respectively.

**Income Statement Presentation and AOCI**

The following tables summarize the impact of derivatives and the related hedged items in our consolidated statements of income and AOCI.

**Fair Value Hedges and Free-Standing Derivatives**

The net gains (losses) recognized in earnings related to derivatives in fair value hedging relationships and free-standing derivatives are presented below for the three months ended March 31, 2015 and 2014:

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 9.3: Gains and Losses on Fair Value Hedges and Free-Standing Derivatives

(Dollars in millions)	Three Months Ended	
	March 31, 2015	2014
Derivatives designated as accounting hedges: <sup>(1)</sup>		
Fair value interest rate contracts:		
Gains recognized in earnings on derivatives	\$ 153	\$ 31
Losses recognized in earnings on hedged items	(148	) (23
Net fair value hedge ineffectiveness gains	5	8
Derivatives not designated as accounting hedges: <sup>(1)</sup>		
Interest rate contracts covering:		
MSRs	6	7
Customer accommodation	4	4
Other interest rate exposures	2	5
Total interest rate contracts	12	16
Other contracts	(2	) (3
Total gains on derivatives not designated as accounting hedges	10	13
Net derivative gains recognized in earnings	\$ 15	\$ 21

<sup>(1)</sup> Amounts are recorded in our consolidated statements of income in other non-interest income.

## Cash Flow and Net Investment Hedges

The table below shows the net gains (losses) related to derivatives designated as cash flow hedges and net investment hedges for the three months ended March 31, 2015 and 2014:

Table 9.4: Gains and Losses on Derivatives Designated as Cash Flow Hedges and Net Investment Hedges

(Dollars in millions)	Three Months Ended	
	March 31, 2015	2014
Gains (losses) recorded in AOCI:		
Cash flow hedges:		
Interest rate contracts	\$ 210	\$ 45
Foreign exchange contracts	(5	) (5
Subtotal	205	40
Net investment hedges:		
Foreign exchange contracts	75	0
Net derivatives gains recognized in AOCI	\$ 280	\$ 40
Gains (losses) recorded in earnings:		
Cash flow hedges:		
Gains (losses) reclassified from AOCI into earnings:		
Interest rate contracts <sup>(1)</sup>	\$ 47	\$ 26
Foreign exchange contracts <sup>(2)</sup>	(4	) (5
Subtotal	43	21
Gains (losses) recognized in earnings due to ineffectiveness:		
Interest rate contracts <sup>(2)</sup>	2	1
Net derivative gains recognized in earnings	\$ 45	\$ 22

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- (1) Amounts reclassified are recorded in our consolidated statements of income in interest income or interest expense.  
(2) Amounts reclassified are recorded in our consolidated statements of income in other non-interest income.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

In the next 12 months, we expect to reclassify to earnings net after-tax gains of \$155 million currently recorded in AOCI as of March 31, 2015. These amounts will offset the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was approximately five years as of March 31, 2015. The amount we expect to reclassify into earnings may change as a result of changes in market conditions and ongoing actions taken as part of our overall risk management strategy.

107

Capital One Financial Corporation  
(COF)

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Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 10—STOCKHOLDERS' EQUITY

## Preferred Stock

The following table summarizes the Company's preferred stock issued and outstanding as of March 31, 2015 and December 31, 2014.

Table 10.1: Preferred Stock Issued and Outstanding

Series	Issuance Date	Redeemable by Issuer Beginning	Non-cumulative Fixed Dividend Rate per Annum	Redemption Price per Depositary Share	Number of Depositary Shares <sup>(1)</sup>	Carrying Value (in millions)	
						March 31, 2015	December 31, 2014
Series B	August 20, 2012	September 1, 2017	6.00	% \$25	35,000,000	\$853	\$853
Series C	June 12, 2014	September 1, 2019	6.25	25	20,000,000	484	484
Series D	October 31, 2014	December 1, 2019	6.70	25	20,000,000	485	485
Total						\$1,822	\$1,822

<sup>(1)</sup> Each depositary share represents a 1/40th interest in a share of fixed-rate non-cumulative perpetual preferred stock. Accumulated Other Comprehensive Income

The following table presents the changes in AOCI by component for the three months ended March 31, 2015 and 2014.

Table 10.2: Accumulated Other Comprehensive Income

(Dollars in millions)	Securities Available for Sale	Securities Held to Maturity <sup>(1)</sup>	Cash Flow Hedges	Foreign Currency Translation Adjustments <sup>(2)</sup>	Other	Total
AOCI as of December 31, 2014	\$410	\$ (821 )	\$10	\$ (8 )	\$ (21 )	\$ (430)
Other comprehensive income (loss) before reclassifications	114	0	205	(84 )	(1 )	234
Amounts reclassified from AOCI into earnings	8	20	(43 )	0	(1 )	(16 )
Net other comprehensive income (loss)	122	20	162	(84 )	(2 )	218
AOCI as of March 31, 2015	\$532	\$ (801 )	\$172	\$ (92 )	\$ (23 )	\$ (212)
(Dollars in millions)	Securities Available for Sale	Securities Held to Maturity <sup>(1)</sup>	Cash Flow Hedges	Foreign Currency Translation Adjustments	Other	Total
AOCI as of December 31, 2013	\$106	\$ (897 )	\$ (110 )	\$40	\$ (11 )	\$ (872)
Other comprehensive income (loss) before reclassifications	149	0	40	(13 )	0	176
Amounts reclassified from AOCI into earnings	(5 )	13	(21 )	0	(1 )	(14 )
Net other comprehensive income (loss)	144	13	19	(13 )	(1 )	162



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 10.3: Reclassifications from AOCI

(Dollars in millions)		Amount Reclassified from AOCI	
		Three Months Ended March 31, 2015	2014
AOCI Components	Affected Income Statement Line Item		
Securities available for sale:			
	Non-interest income - Other	\$2	\$13
	Non-interest income - OTTI	(15)	(5)
	(Loss) income from continuing operations before income taxes	(13)	8
	Income tax (benefit) provision	(5)	3
	Net (loss) income	(8)	5
Securities held to maturity: <sup>(1)</sup>			
	Non-interest income - Other	(33)	(28)
	Income tax benefit	(13)	(15)
	Net loss	(20)	(13)
Cash flow hedges:			
Interest rate contracts:	Interest income - Other	75	42
Foreign exchange contracts:	Non-interest income - Other	(7)	(8)
	Income from continuing operations before income taxes	68	34
	Income tax provision	25	13
	Net income	43	21
Other:			
	Various (pension and other)	1	1
	Income tax provision (benefit)	0	0
	Net income	1	1
Total reclassifications		\$16	\$14

The amortization of unrealized holding gains or losses reported in AOCI for securities held to maturity will be <sup>(1)</sup> offset by the amortization of the premium or discount created from the transfer into securities held to maturity, which occurred at fair value.

The table below summarizes other comprehensive income activity and the related tax impact for the three months ended March 31, 2015 and 2014:

Table 10.4: Other Comprehensive Income (Loss)

(Dollars in millions)	Three Months Ended March 31,					
	2015	2014				
	Before Tax	Provision (Benefit)	After Tax	Before Tax	Provision (Benefit)	After Tax
Other comprehensive income (loss):						
Net unrealized gains on securities available for sale	\$190	\$68	\$122	\$229	\$85	\$144
Net changes in securities held to maturity	33	13	20	28	15	13



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Net unrealized gains on cash flow hedges	258	96	162	30	11	19
Foreign currency translation adjustments <sup>(1)</sup>	(41 )	43	(84 )	(13 )	0	(13 )
Other	(4 )	(2 )	(2 )	(1 )	0	(1 )
Other comprehensive income	\$436	\$218	\$218	\$273	\$111	\$162

<sup>(1)</sup> Includes the impact from hedging instruments designated as net investment hedges.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 11—EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share:

Table 11.1: Computation of Basic and Diluted Earnings per Common Share

(Dollars and shares in millions, except per share data)	Three Months Ended March	
	31, 2015	2014
Basic earnings		
Income from continuing operations, net of tax	\$ 1,134	\$ 1,124
Income from discontinued operations, net of tax	19	30
Net income	1,153	1,154
Dividends and undistributed earnings allocated to participating securities <sup>(1)</sup>	(6	) (5
Preferred stock dividends	(32	) (13
Net income available to common stockholders	\$ 1,115	\$ 1,136
Net income from continuing operations per share	\$ 2.00	\$ 1.94
Income from discontinued operations per share	0.03	0.05
Net income per share	\$ 2.03	\$ 1.99
Total weighted-average basic shares outstanding	550.2	571.0
Diluted earnings <sup>(2)</sup>		
Net income available to common stockholders	\$ 1,115	\$ 1,136
Net income from continuing operations per share	\$ 1.97	\$ 1.91
Income from discontinued operations per share	0.03	0.05
Net income per share	\$ 2.00	\$ 1.96
Total weighted-average basic shares outstanding	550.2	571.0
Effect of dilutive securities:		
Stock options	2.6	2.4
Other contingently issuable shares	1.5	1.5
Warrants <sup>(3)</sup>	2.9	5.4
Total effect of dilutive securities	7.0	9.3
Total weighted-average diluted shares outstanding	557.2	580.3

(1) Includes undistributed earnings allocated to participating securities using the two-class method under the accounting guidance for computing earnings per share.

Excluded from the computation of diluted earnings per share were 2.0 million shares related to options with exercise prices ranging from \$70.96 to \$88.81, and 4.6 million shares related to options with exercise prices ranging from \$70.96 to \$88.81 for the three months ended March 31, 2015 and 2014, respectively, because their inclusion would be anti-dilutive.

Represents warrants issued as part of the U.S. Department of Treasury's Troubled Assets Relief Program ("TARP").

(3) As of March 31, 2015, there were 6.3 million warrants to purchase common stock outstanding, which represents approximately half of the warrants issued in the initial offering.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## NOTE 12—FAIR VALUE MEASUREMENT

Fair value 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 (also referred to as an exit price). 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. The 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: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation is based on observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities, quoted prices in markets that are not active, or models using inputs that are observable or can be corroborated by observable market data of substantially the full term of the assets or liabilities.
- Level 3: Valuation is generated from techniques that use significant assumptions not observable in the market.

Valuation techniques include pricing models, discounted cash flow methodologies or similar techniques. The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value in earnings. We have not made any material fair value option elections as of or for the periods disclosed herein.

**Fair Value Governance and Control**

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 from our trading and investing functions, including our Corporate Valuations Group (“CVG”), Fair Value Committee (“FVC”) and Model Validation Group (“MVG”), participate in the review and validation process. The fair valuation 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 and may meet for a general update on the valuation process.

The CVG performs periodic verification of fair value measurements to determine if assigned fair values are reasonable. For example, in cases where we rely on third-party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the final price used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources, where necessary. Additional validation procedures performed by the CVG include reviewing (either directly or indirectly through the reasonableness of assigned fair values) valuation inputs and assumptions and monitoring acceptable variances between recommended prices and validation prices. The CVG and the Trade Analytics and Valuation (“TAV”) team perform due diligence reviews of the third-party pricing services by comparing their prices to those from other sources and reviewing other control documentation. Additionally, when necessary, the CVG and TAV challenge prices from third-party vendors to ensure reasonableness of prices through a pricing challenge process. This may include a request for transparency of the assumptions used by the third party.

The FVC, which includes representation from our Risk Management and Finance divisions, is a forum for discussing fair market valuations, inputs, assumptions, methodologies, variance thresholds, valuation control environments and material risks or concerns related to fair market valuations. Additionally, the FVC is empowered to resolve valuation disputes between the primary valuation providers and the CVG, and provides guidance and oversight to ensure an appropriate valuation control environment. The FVC regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance. The Chief Financial Officer determines when material issues or concerns regarding valuations shall be raised to the Audit Committee or another delegated committee of the Board of Directors.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

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. The MVG is part of the Model Risk Office and validates all models and provides ongoing monitoring of their performance, including the validation and monitoring of the performance of all valuation models.

**Assets and Liabilities Measured at Fair Value on a Recurring Basis**

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of March 31, 2015 and December 31, 2014:

Table 12.1: Assets and Liabilities Measured at Fair Value on a Recurring Basis

(Dollars in millions)	March 31, 2015			Total
	Fair Value Measurements Using			
	Level 1	Level 2	Level 3	
<b>Assets:</b>				
<b>Securities available for sale:</b>				
U.S. Treasury securities	\$4,440	\$0	\$0	\$4,440
Corporate debt securities guaranteed by U.S. government agencies	0	426	172	598
RMBS	0	25,493	555	26,048
CMBS	0	5,255	174	5,429
Other ABS	0	2,021	7	2,028
Other securities	112	648	18	778
Total securities available for sale	4,552	33,843	926	39,321
<b>Other assets:</b>				
Consumer MSRs	0	0	53	53
Derivative assets <sup>(1)(2)</sup>	3	1,863	73	1,939
Retained interests in securitizations	0	0	223	223
Total assets	\$4,555	\$35,706	\$1,275	\$41,536
<b>Liabilities:</b>				
<b>Other liabilities:</b>				
Derivative liabilities <sup>(1)(2)</sup>	\$3	\$371	\$48	\$422
Total liabilities	\$3	\$371	\$48	\$422

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014			
	Fair Value Measurements Using			Total
	Level 1	Level 2	Level 3	
Assets:				
Securities available for sale:				
U.S. Treasury securities	\$4,117	\$1	\$0	\$4,118
Corporate debt securities guaranteed by U.S. government agencies	0	467	333	800
RMBS	0	24,820	561	25,381
CMBS	0	5,291	228	5,519
Other ABS	0	2,597	65	2,662
Other securities	111	899	18	1,028
Total securities available for sale	4,228	34,075	1,205	39,508
Other assets:				
Consumer MSRs	0	0	53	53
Derivative assets <sup>(1)(2)</sup>	4	1,382	66	1,452
Retained interests in securitizations	0	0	221	221
Total assets	\$4,232	\$35,457	\$1,545	\$41,234
Liabilities:				
Other liabilities:				
Derivative liabilities <sup>(1)(2)</sup>	\$3	\$293	\$43	\$339
Total liabilities	\$3	\$293	\$43	\$339

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

The balances represent gross derivative amounts and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty. The net derivative assets were \$1.3 billion and \$828 million, and the net derivative liabilities were \$257 million and \$175 million as of March 31, 2015 and December 31, 2014, respectively. See “Note 9—Derivative Instruments and Hedging Activities” for further information.

Does not reflect \$5 million and \$4 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of March 31, 2015 and December 31, 2014, respectively. Non-performance risk is reflected in other assets and liabilities on the consolidated balance sheets and offset through other income in the consolidated statements of income.

The determination of the classification of financial instruments in the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the unobservable inputs to the instruments’ fair value measurement in its entirety. If unobservable 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. During the three months ended March 31, 2015 we had minimal movements between Levels 1 and 2.

Level 3 Recurring Fair Value Rollforward

The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three months ended March 31, 2015 and 2014. When assets and liabilities are transferred between levels, we recognize the transfer as of the end of the period.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 12.2: Level 3 Recurring Fair Value Rollforward

Fair Value Measurements Using Significant Unobservable Inputs (Level 3)											
Three Months Ended March 31, 2015											
											Net
											Unrealized
											Gains
											(Losses)
											Included in
											Net
											Income
											Related to
											Assets and
											Liabilities
											Still Held as of
											March 31,
											2015 <sup>(3)</sup>
(Dollars in millions)	Balance, January 2015	Included in Net Income <sup>(1)</sup>	Included in OCI	Purchases	Sales	Issuance	Settlements	Transfers Into Level 3 <sup>(2)</sup>	Transfers Out of Level 3 <sup>(2)</sup>	Balance, March 31, 2015	
Assets:											
Securities available for sale:											
Corporate debt securities											
guaranteed by U.S. government agencies	\$ 333	\$ (2 )	\$ 5	\$ 0	\$ (68)	\$ 0	\$ (8 )	\$ 0	\$ (88 )	\$ 172	\$ 0
RMBS	561	8	8	0	0	0	(13 )	85	(94 )	555	9
CMBS	228	0	1	0	0	0	(21 )	0	(34 )	174	0
Other ABS	65	1	(2 )	0	(20 )	0	0	0	(37 )	7	0
Other securities	18	0	0	0	0	0	0	0	0	18	0
Total securities available for sale	1,205	7	12	0	(88 )	0	(42 )	85	(253 )	926	9
Other assets:											
Consumer MSRs	53	(3 )	0	0	0	4	(1 )	0	0	53	(3 )
Derivative assets <sup>(4)</sup>	66	11	0	0	0	9	(12 )	0	(1 )	73	11
Retained interest in securitizations	221	2	0	0	0	0	0	0	0	223	2
Liabilities:											
Other liabilities:											
Derivative liabilities <sup>(4)</sup>	\$ 43	\$ 10	\$ 0	\$ 0	\$ 0	\$ 7	\$ (12 )	\$ 0	\$ 0	\$ 48	\$ 10

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Fair Value Measurements Using Significant Unobservable Inputs (Level 3)  
Three Months Ended March 31, 2014

(Dollars in millions)	Balance, Included in January 2014	Included in Net Income <sup>(1)</sup>	Included in OCI	Purchases	Sales	Issuances	Settlements	Transfers Into Level 3 <sup>(2)</sup>	Transfers Out of Level 3 <sup>(2)</sup>	Balance, March 31, 2014	Net Unrealized Gains (Losses) Included in Net Income Related to Assets and Liabilities Still Held as of March 31, 2014 <sup>(3)</sup>	
												Total Gains (Losses) (Realized/Unrealized)
Assets:												
Securities available for sale:												
Corporate debt securities guaranteed by U.S. government agencies												
RMBS	\$927	\$ 0	\$ 10	\$ 0	\$(112)	\$ 0	\$( 21 )	\$ 64	\$( 116 )	\$752	\$ 0	
CMBS	1,304	20	28	886	0	0	(34 )	57	(534 )	1,727	20	
Other ABS	739	0	2	34	0	0	(11 )	38	(307 )	495	0	
Other securities	343	2	2	0	0	0	(1 )	43	(163 )	226	2	
Total securities available for sale	17	0	0	0	0	0	0	0	0	17	0	
Other assets:												
Consumer MSR	69	(11 )	0	0	0	4	(1 )	0	0	61	(11 )	
Derivative assets <sup>(4)</sup>	50	0	0	0	0	2	(3 )	0	(1 )	48	0	
Retained interest in securitization	199	(2 )	0	0	0	0	0	0	0	197	(2 )	
Liabilities:												
Other liabilities:												
Derivative liabilities <sup>(4)</sup>	\$38	\$ 2	\$ 0	\$ 0	\$ 0	\$ 1	\$( 5 )	\$ 0	\$ 0	\$36	\$ 2	

Gains (Losses) related to Level 3 Consumer MSR, derivative assets and derivative liabilities, and retained interests in securitizations are reported in other non-interest income, which is a component of non-interest income, in our consolidated statements of income.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

During the three months ended March 31, 2015 and 2014, the transfers into Level 3 were primarily driven by less consistency among vendor pricing on individual securities, while the transfers out of Level 3 were primarily driven by greater consistency among multiple pricing sources.

The amount presented for unrealized gains (losses) for assets still held as of the reporting date primarily represents impairments of securities available for sale, accretion on certain fixed maturity securities, changes in fair value of derivative instruments and mortgage servicing rights transactions. Impairment is reported in total other-than-temporary impairment, which is a component of non-interest income, in our consolidated statements of income.

All level 3 derivative assets and liabilities are presented on a gross basis and are not reduced by the impact of legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty.

**Significant Level 3 Fair Value Asset and Liability Input Sensitivity**

Changes in unobservable inputs may have a significant impact on fair value. Certain of these unobservable inputs will, in isolation, have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. In general, an increase in the discount rate, default rates, loss severity and credit spreads, in isolation, would result in a decrease in the fair value measurement. In addition, an increase in default rates would generally be accompanied by a decrease in recovery rates, slower prepayment rates and an increase in liquidity spreads.

**Techniques and Inputs for Level 3 Fair Value Measurements**

The following table presents the significant unobservable inputs relied upon to determine the fair values of our recurring Level 3 financial instruments. We utilize multiple third-party pricing services to obtain fair value measures for our securities. Several of our third-party pricing services are only able to provide unobservable input information for a limited number of securities due to software licensing restrictions. Other third-party pricing services are able to provide unobservable input information for all securities for which they provide a valuation. As a result, the unobservable input information for the securities available for sale presented below represents a composite summary of all information we are able to obtain for a majority of our securities. The unobservable input information for all other Level 3 financial instruments is based on the assumptions used in our internal valuation models.

Table 12.3: Quantitative Information about Level 3 Fair Value Measurements

(Dollars in millions)	Quantitative Information about Level 3 Fair Value Measurements				Weighted Average
	Fair Value at March 31, 2015	Significant Valuation Techniques	Significant Unobservable Inputs	Range	
Assets:					
Securities available for sale:					
RMBS	\$555	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate Default rate Loss severity	1-22% 0-22% 0-15% 0-85%	6% 4% 5% 59%
CMBS	174	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate	1-2% 0-100%	2% 5%
Other ABS	7	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate	2% 0%	2% 0%

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		pricing)	Default rate	1%	1%
			Loss severity	30%	30%
U.S. government guaranteed debt and other securities	190	Discounted cash flows (3rd party pricing)	Yield	1-4%	3%
Other assets:					
			Total prepayment rate	9-20%	18%
			Discount rate	14%	14%
Consumer MSRs	53	Discounted cash flows	Option Adjusted Spread rate	435-1500 bps	489 bps
			Servicing cost (\$ per loan)	\$93.18-\$208.70	\$100.45
Derivative assets <sup>(1)</sup>	73	Discounted cash flows	Swap rates	2%	2%
			Life of receivables (months)	24-84	
Retained interests in securitization <sup>(2)</sup>	223	Discounted cash flows	Constant prepayment rate	2-11%	
			Discount rate	4-11%	N/A
			Default rate	2-6%	
			Loss severity	16-91%	
Liabilities:					
Derivative liabilities <sup>(1)</sup>	\$48	Discounted cash flows	Swap rates	2%	2%

115

Capital One Financial Corporation  
(COF)

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	Quantitative Information about Level 3 Fair Value Measurements				
	Fair Value at December 31, 2014	Significant Valuation Techniques	Significant Unobservable Inputs	Range	Weighted Average
Assets:					
Securities available for sale:					
RMBS	\$561	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate Default rate Loss severity	0-18% 0-23% 0-15% 0-85%	6% 4% 5% 55%
CMBS	228	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate	1-4% 0-100%	1% 5%
Other ABS	65	Discounted cash flows (3rd party pricing)	Yield Constant prepayment rate Default rate Loss severity	2-7% 0-3% 1-10% 30-88%	5% 2% 7% 71%
U.S. government guaranteed debt and other securities	351	Discounted cash flows (3rd party pricing)	Yield	1-4%	3%
Other assets:					
Consumer MSRs	53	Discounted cash flows	Total prepayment rate Discount rate Option Adjusted Spread rate Servicing cost (\$ per loan)	12-27% 12% 435-1,500 bps \$93.18-\$208.70	18% 12% 478 bps \$100.63
Derivative assets <sup>(1)</sup>	66	Discounted cash flows	Swap rates	2-3%	2%
Retained interests in securitization <sup>(2)</sup>	221	Discounted cash flows	Life of receivables (months) Constant prepayment rate Discount rate Default rate Loss severity	25-72 2-13% 4-9% 2-8% 19-95%	N/A
Liabilities:					
Derivative liabilities <sup>(1)</sup>	\$43	Discounted cash flows	Swap rates	2-3%	2%

All level 3 derivative assets and liabilities are presented on a gross basis and are not reduced by the impact of

(1) legally enforceable master netting agreements that allow us to net positive and negative positions and cash collateral held or placed with the same counterparty.

(2)

Due to the nature of the various mortgage securitization structures in which we have retained interests, it is not meaningful to present a consolidated weighted average for the significant unobservable inputs.

#### Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We are required to measure and recognize certain other assets at fair value on a nonrecurring basis on the consolidated balance sheets. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, from the application of LOCOM accounting or when we evaluate for impairment). The following table presents the carrying amount of the assets measured at fair value on a nonrecurring basis and still held as of March 31, 2015 and December 31, 2014, and for which a nonrecurring fair value measurement was recorded during the three and twelve months then ended:

Table 12.4: Nonrecurring Fair Value Measurements Related to Assets Still Held at Period End

(Dollars in millions)	March 31, 2015			Total
	Estimated			
	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	
Assets:				
Loans held for investment	\$0	\$0	\$63	\$63
Loans held for sale	0	15	0	15
Other assets <sup>(1)</sup>	0	0	28	28
Total	\$0	\$15	\$91	\$106

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

(Dollars in millions)	December 31, 2014			Total
	Estimated			
	Fair Value Hierarchy			
	Level 1	Level 2	Level 3	
Assets:				
Loans held for investment	\$0	\$0	\$121	\$121
Loans held for sale	0	34	0	34
Other assets <sup>(1)</sup>	0	0	65	65
Total	\$0	\$34	\$186	\$220

Includes foreclosed property and repossessed assets of \$28 million as of March 31, 2015, compared to foreclosed<sup>(1)</sup> property and repossessed assets of \$60 million and long-lived assets held for sale of \$5 million as of December 31, 2014.

In the above table, loans held for investment primarily include nonperforming loans for which specific reserves or charge-offs have been recognized. These loans are classified as Level 3 as they are valued based in part on the estimated fair value of the underlying collateral and the non-recoverable rate, which is considered to be a significant unobservable input. Collateral fair value sources include the appraisal value obtained from independent appraisers, broker pricing opinions, or other available market information. The non-recoverable rate ranged from 9% to 74%, with a weighted average of 34%, and from 0% to 74%, with a weighted average of 30%, as of March 31, 2015 and December 31, 2014, respectively. The fair value of the other assets classified as Level 3 is determined based on appraisal value or listing price which involves significant judgment; the significant unobservable inputs and related quantitative information are not meaningful to disclose as they vary significantly across properties and collateral. The following table presents total nonrecurring fair value measurements for the period, included in earnings, attributable to the change in fair value relating to assets that are still held at March 31, 2015 and 2014:

Table 12.5: Nonrecurring Fair Value Measurements Included in Earnings Related to Assets Still Held at Period End

(Dollars in millions)	Total Gains (Losses)	
	Three Months Ended March 31, 2015	2014
Assets:		
Loans held for investment	\$(5 )	\$(9 )
Loans held for sale	0	(1 )
Other assets <sup>(1)</sup>	(4 )	(3 )
Total	\$(9 )	\$(13 )

<sup>(1)</sup> Includes losses related to foreclosed property and repossessed assets and long-lived assets held for sale.

## Fair Value of Financial Instruments

The following table presents the fair value of financial instruments, whether or not recognized on the consolidated balance sheets at fair value, as of March 31, 2015 and December 31, 2014:

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Table 12.6: Fair Value of Financial Instruments

(Dollars in millions)	March 31, 2015		Estimated Fair Value Hierarchy		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$8,891	\$ 8,891	\$8,891	\$0	\$0
Restricted cash for securitization investors	234	234	234	0	0
Securities available for sale	39,321	39,321	4,552	33,843	926
Securities held to maturity	23,241	24,653	199	24,197	257
Net loans held for investment	199,573	202,522	0	0	202,522
Loans held for sale	1,331	1,358	0	1,358	0
Interest receivable <sup>(1)</sup>	1,078	1,078	0	1,078	0
Derivative assets <sup>(1)(2)</sup>	1,939	1,939	3	1,863	73
Retained interests in securitizations	223	223	0	0	223
<b>Financial liabilities:</b>					
Non-interest bearing deposits	\$25,232	\$ 25,232	\$25,232	\$0	\$0
Interest-bearing deposits	185,208	180,037	0	11,253	168,784
Securitized debt obligations	12,717	12,826	0	12,826	0
Senior and subordinated notes	20,599	20,967	0	20,967	0
Federal funds purchased and securities loaned or sold under agreements to repurchase	933	933	933	0	0
Other borrowings	6,820	6,823	0	6,823	0
Interest payable <sup>(1)</sup>	195	195	0	195	0
Derivative liabilities <sup>(1)(2)</sup>	422	422	3	371	48
<b>December 31, 2014</b>					
(Dollars in millions)			Estimated Fair Value Hierarchy		
	Carrying Amount	Estimated Fair Value	Level 1	Level 2	Level 3
<b>Financial assets:</b>					
Cash and cash equivalents	\$7,242	\$ 7,242	\$7,242	\$0	\$0
Restricted cash for securitization investors	234	234	234	0	0
Securities available for sale	39,508	39,508	4,228	34,075	1,205
Securities held to maturity	22,500	23,634	0	23,503	131
Net loans held for investment	203,933	207,104	0	0	207,104
Loans held for sale	626	650	0	650	0
Interest receivable <sup>(1)</sup>	1,079	1,079	0	1,079	0
Derivatives assets <sup>(1)(2)</sup>	1,452	1,452	4	1,382	66
Retained interests in securitizations	221	221	0	0	221
<b>Financial liabilities:</b>					
Non-interest bearing deposits	\$25,081	\$ 25,081	\$25,081	\$0	\$0
Interest-bearing deposits	180,467	174,074	0	11,668	162,406
Securitized debt obligations	11,624	11,745	0	11,745	0
Senior and subordinated notes	18,684	19,083	0	19,083	0



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Federal funds purchased and securities loaned or sold under agreements to repurchase	880	880	880	0	0
Other borrowings	17,269	17,275	0	17,275	0
Interest payable <sup>(1)</sup>	254	254	0	254	0
Derivatives liabilities <sup>(1)(2)</sup>	339	339	3	293	43

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

<sup>(2)</sup> The balances represent gross derivative amounts and are not reduced by the impact of legally enforceable master netting agreements that allow us to net

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

positive and negative positions and cash collateral held or placed with the same counterparty. See additional information in “Note 9—Derivative Instruments and Hedging Activities” for additional information.

The following describes the valuation techniques used in estimating the fair value of our financial instruments as of March 31, 2015 and December 31, 2014. We applied the fair value provisions to the financial instruments not recognized on the consolidated balance sheets at fair value, which include securities held to maturity, loans held for investment, loans held for sale, interest receivable, interest-bearing deposits, securitized debt obligations, other borrowings and senior and subordinated notes. The provisions requiring us to maximize the use of observable inputs and to measure fair value using a notion of exit price were factored into our selection of inputs for our established valuation techniques.

Financial Assets and Liabilities

Cash and Cash Equivalents

The carrying amounts of cash and due from banks, federal funds sold and securities purchased under agreements to resell and interest-bearing deposits with banks approximate fair value.

Restricted Cash for Securitization Investors

The carrying amount of restricted cash for securitization investors approximates the fair value due to its relatively short-term nature.

Investment Securities

Quoted prices in active markets are used to measure the fair value of U.S. Treasury debt obligations. For other investment categories, we utilize multiple third-party pricing services to obtain fair value measurements for the large majority of our securities. A pricing service may be considered as the primary pricing provider for certain types of securities, and the designation of the primary pricing provider may vary depending on the type of securities. The determination of the primary pricing provider is based on our experience and validation benchmark of the pricing service’s performance in terms of providing fair value measurements for the various types of securities.

Certain securities are classified as Level 2 and 3, the majority of which are collateralized mortgage obligations and mortgage-backed securities. Level 2 and 3 classifications indicate that significant valuation assumptions are not consistently observable in the market. When significant assumptions are not consistently observable, fair values are derived using the best available data. Such data may include quotes provided by a dealer, the use of external pricing services, independent pricing models, or other model-based valuation techniques such as calculation of the present values of future cash flows incorporating assumptions such as benchmark yields, spreads, prepayment speeds, credit ratings and losses. The techniques used by the pricing services utilize observable market data to the extent available. Pricing models may be used, which can vary by asset class and may incorporate available trade, bid and other market information. Across asset classes, information such as trader/dealer input, credit spreads, forward curves and prepayment speeds are used to help determine appropriate valuations. Because many fixed income securities do not trade on a daily basis, the evaluated pricing applications may apply available information through processes such as benchmarking curves, like securities, sector groupings and matrix pricing to prepare valuations. In addition, model processes are used by the pricing services to develop prepayment and interest rate scenarios.

We validate the pricing obtained from the primary pricing providers through comparison of pricing to additional sources, including other pricing services, dealer pricing indications in transaction results and other internal sources. Pricing variances among different pricing sources are analyzed and validated. Additionally, on an on-going basis, we may select a sample of securities and test the third-party valuation by obtaining more detailed information about the pricing methodology, sources of information and assumptions used to value the securities.

The significant unobservable inputs used in the fair value measurement of our residential, asset-backed and commercial securities include yield, prepayment rate, default rate and loss severity in the event of default. Significant increases or decreases in any of those inputs in isolation or combination would result in a significant change in fair

value measurement. Generally, an increase in the yield assumption will result in a decrease in fair value measurement; however, an increase or decrease in prepayment rate, default rate or loss severity may have a different impact on the fair value given various characteristics of the security including the capital structure of the deal, credit enhancement for the security or other factors.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Net Loans Held For Investment

Loans held for investment that are individually impaired are carried at the lower of cost or fair value of the underlying collateral, less the estimated cost to sell. The fair values of credit card loans, installment loans, auto loans, home loans and commercial loans are estimated using a discounted cash flow method, which is a form of the income approach. Discount rates are determined considering rates at which similar portfolios of loans would be made under current conditions and considering liquidity spreads applicable to each loan portfolio based on the secondary market. The fair value of credit card loans excludes any value related to customer account relationships. For those loans held for investment that are recorded at fair value on our consolidated balance sheets on a nonrecurring basis, the fair value is determined using appraisal values that are obtained from independent appraisers, broker pricing opinions or other available market information, adjusted for the estimated costs to transact the sale.

Due to the use of significant unobservable inputs, loans held for investment are classified as Level 3 under the fair value hierarchy. Fair value adjustments for individually impaired collateralized loans held for investment are recorded in provision for credit losses in the consolidated statements of income.

Loans Held For Sale

Loans held for sale are carried at the lower of aggregate cost, net of deferred fees and deferred origination costs, or fair value. We originate loans with the intent to sell them. Commercial mortgage loans are sold to government-sponsored enterprises as part of a delegated underwriting and servicing (“DUS”) program. For DUS commercial mortgage loans, the fair value is estimated primarily using contractual prices and other observable market-based inputs. For residential mortgage loans classified as held for sale, the fair value is estimated using observable market prices for loans with similar characteristics as the primary component, with the secondary component derived from typical securitization activities and market conditions. Credit card loans held for sale are valued based on other observable market-based inputs. These assets are therefore classified as Level 2. Fair value adjustments to loans held for sale are recorded in other non-interest income in our consolidated statements of income.

Interest Receivable

The carrying amount of interest receivable approximates the fair value of this asset due to its relatively short-term nature.

Derivative Assets and Liabilities

We use both exchange-traded derivatives and OTC derivatives to manage our interest rate and foreign currency risk exposure. Quoted market prices are available and used for our exchange-traded derivatives, which we classify as Level 1. However, predominantly all of our derivatives are traded in OTC markets where quoted market prices are not always readily available. Therefore, we value most OTC derivatives using valuation techniques, which include internally-developed models. We primarily rely on market observable inputs for our models, such as interest rate yield curves, credit curves, option volatility and currency rates, that vary depending on the type of derivative and nature of the underlying rate, price or index upon which the derivative’s value is based. Where model inputs can be observed in a liquid market and the model does not require significant judgment, such derivatives are typically classified as Level 2 of the fair value hierarchy. When instruments are traded in less liquid markets and significant inputs are unobservable, such as interest rate swaps whose remaining terms do not correlate with market observable interest rate yield curves, the derivatives are classified as Level 3. The impact of counterparty non-performance risk is considered when measuring the fair value of derivative assets. These derivatives are included in other assets on the consolidated balance sheets.

We validate the pricing obtained from the internal models through comparison of pricing to additional sources, including external valuation agents and other internal sources. Pricing variances among different pricing sources are analyzed and validated.

Mortgage Servicing Rights

We record consumer MSR's at fair value on a recurring basis, while commercial MSR's are subsequently measured at amortized cost with impairment recognized as a reduction in other non-interest income. MSR's do not trade in an active market with readily observable prices. Accordingly, we determine the fair value of MSR's using a valuation model that calculates the present value of estimated future net servicing income. The model incorporates assumptions that we believe other market participants use in estimating future net servicing income, including estimates of prepayment speeds, discount rate/option-adjusted spreads, cost to service, contractual servicing fee income, ancillary income and late fees. Fair value measurements of MSR's use significant unobservable inputs and, accordingly, are classified as Level 3. In the event we enter into an agreement with a third party to sell

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

the MSR, the valuation is based on the agreed upon sale price which is considered to be the determined exit price for the assets and the MSR is classified as Level 2.

Retained Interests in Securitizations

We have retained interests in various mortgage securitization deals from previous acquisitions. Our retained interest includes rights to future cash flows arising from the receivables, the most significant being certificated interest-only bonds issued by the trust. We record our interest in these deals at fair value using valuation models to calculate the present value of future income. The model incorporates various assumptions that market participants use in estimating future income including weighted-average life, constant prepayment rate, discount rate, default rate and severity.

Other Assets

Included in other assets are foreclosed property, other repossessed assets and long-lived assets held for sale.

Foreclosed property and other repossessed assets are carried at the lower of the carrying amount or fair value less costs to sell. The fair value is determined based on the appraisal value or listing price of the property or collateral provided by independent appraisers, and is adjusted for the estimated costs to transact the sale. Due to the use of significant unobservable inputs, foreclosed property is classified as Level 3 under the fair value hierarchy. Fair value adjustments for foreclosed property are recorded in other non-interest expense in the consolidated statements of income.

Long-lived assets held for sale are also subject to fair value measurement on a nonrecurring basis, and carried at the lower of their carrying amount or fair value less costs to sell. The fair value is determined based on the appraisal value or listing price of the property or collateral provided by independent appraisers, and is adjusted for the estimated costs to transact the sale. Due to the use of significant unobservable inputs, long-lived assets held for sale are classified as Level 3 under the fair value hierarchy. Fair value adjustments for long-lived assets are recorded in other non-interest expense in the consolidated statements of income.

Non-Interest Bearing Deposits

The carrying amount of non-interest bearing deposits approximates fair value.

Interest-Bearing Deposits

The fair value of interest-bearing deposits is determined based on discounted expected cash flows using discount rates consistent with current market rates for similar products with similar remaining terms.

Securitized Debt Obligations

We utilized multiple third-party pricing services to obtain fair value measurements for the large majority of our securitized debt obligations. The techniques used by the pricing services utilize observable market data to the extent available; and pricing models may be used which incorporate available trade, bid and other market information as described in the above section. We used internal pricing models, discounted cash flow models or similar techniques to estimate the fair value of certain securitization trusts where third-party pricing was not available.

Senior and Subordinated Notes

We engage multiple third-party pricing services in order to estimate the fair value of senior and subordinated notes. The pricing services utilize pricing models that incorporate available trade, bid and other market information. It also incorporates spread assumptions, volatility assumptions and relevant credit information into the pricing models.

Federal Funds Purchased and Securities Loaned or Sold under Agreements to Repurchase and Other Borrowings

The carrying amount of federal funds purchased and repurchase agreements approximates fair value. The fair value of FHLB advances is determined based on discounted expected cash flows using discount rates consistent with current market rates for FHLB advances with similar remaining terms.

Interest Payable

The carrying amount of interest payable approximates the fair value of this liability due to its relatively short-term nature.



Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 13—BUSINESS SEGMENTS

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

Basis of Presentation

We report the results of each of our business segments on a continuing operations basis. See “Note 2—Discontinued Operations” for a discussion of discontinued operations. The results of our individual businesses reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources.

Business Segment Reporting Methodology

The results of our business segments are intended to reflect each segment as if it were a stand-alone business. Our internal management and reporting process used to derive our segment results 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. 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 funds charge for the use of funds by each segment. Due to the integrated nature of our business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. 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 provide additional information on the allocation methodologies used to derive our business segment results in “Note 19—Business Segments” in our 2014 Form 10-K.

Segment Results and Reconciliation

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. The following tables present our business segment results for the three months ended March 31, 2015 and 2014, selected balance sheet data as of March 31, 2015 and 2014, and a reconciliation of our total business segment results to our reported consolidated income from continuing operations, assets and deposits. Prior period amounts have been recast to conform to the current period.







Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 14—COMMITMENTS, CONTINGENCIES, GUARANTEES AND OTHERS

Guarantees

We have credit exposure on agreements that we entered into to absorb a portion of the risk of loss on certain manufactured housing securitizations issued by GreenPoint Credit, LLC in 2000. Our maximum credit exposure related to these agreements totaled \$13 million and \$14 million as of March 31, 2015 and December 31, 2014, respectively. These agreements are recorded on our consolidated balance sheets as a component of other liabilities and our obligations under these agreements was \$9 million and \$12 million as of March 31, 2015 and December 31, 2014, respectively. See “Note 6—Variable Interest Entities and Securitizations” for additional information about our manufactured housing securitization transactions.

Letters of Credit and Loss Sharing Agreements

We issue letters of credit (financial standby, performance standby and commercial) to meet the financing needs of our customers. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party in a borrowing arrangement. Commercial letters of credit are short-term commitments issued primarily to facilitate trade finance activities for customers and are generally collateralized by the goods being shipped to the client. These collateral requirements are similar to those for funded transactions and are established based on management’s credit assessment of the customer. Management conducts regular reviews of all outstanding letters of credit and customer acceptances, and the results of these reviews are considered in assessing the adequacy of our allowance for loan and lease losses.

On November 1, 2013, we acquired Beech Street Capital, a privately-held, DUS lender that originates multifamily commercial real estate loans with the intent to sell them to a government-sponsored enterprise (“GSE”). Beech Street Capital was renamed Capital One Multifamily Finance in 2014. We enter into loss sharing agreements with Fannie Mae upon the sale of the DUS commercial loans. Under these agreements, we share losses on the covered loans with Fannie Mae on a pari-passu basis. At inception, we record a liability representing the fair value of our obligation which is subsequently amortized as we are released from risk of payment under the loss sharing agreement. If payment under the loss sharing agreement becomes probable and estimable, an additional liability may be recorded on the consolidated balance sheets and a non-interest expense may be recognized in the consolidated statements of income. The associated MSRs are also reviewed for impairment annually.

We had standby letters of credit and commercial letters of credit with contractual amounts of \$2.0 billion and \$2.1 billion as of March 31, 2015 and December 31, 2014, respectively. The carrying value of outstanding letters of credit, which we include in other liabilities on our consolidated balance sheets, was \$3 million as of both March 31, 2015 and December 31, 2014. These financial guarantees had expiration dates ranging from 2015 to 2025 as of March 31, 2015. The amount of liability recognized on our consolidated balance sheets for Fannie Mae and other loss sharing agreements was \$37 million and \$36 million as of March 31, 2015 and December 31, 2014, respectively. No additional collateral or recourse provisions exist to reduce this exposure.

U.K. Cross Sell

In the U.K., we previously sold payment protection insurance (“PPI”) and other ancillary cross sell products. In response to an elevated level of customer complaints across the industry, heightened media coverage and pressure from consumer advocacy groups, the U.K. Financial Conduct Authority (“FCA”) investigated and raised concerns about the way some companies have handled complaints related to the sale of these insurance policies. Management’s best estimate of incurred losses related to U.K. cross sell products, including PPI, totaled \$92 million and \$116 million as of March 31, 2015 and December 31, 2014, respectively. The decrease to the reserve for the three months ended March 31, 2015 was a combination of utilization of the reserve through customer refund payments and foreign exchange movements. Given the inherent uncertainty involved in this matter, it is possible our ultimate liability may differ from our current estimate.



Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

## Mortgage Representation and Warranty Liabilities

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

In connection with their sales of mortgage loans, the subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan’s compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the existence of mortgage insurance, and the loan’s compliance with applicable federal, state and local laws. The representations and warranties do not address the credit performance of the mortgage loans, but mortgage loan performance often influences whether a claim for breach of representation and warranty will be asserted and has an effect on the amount of any loss in the event of a breach of a representation or warranty.

Each of these subsidiaries may be required to repurchase mortgage loans in the event of certain breaches of these representations and warranties. In the event of a repurchase, the subsidiary is typically required to pay the unpaid principal balance of the loan together with interest and certain expenses (including, in certain cases, legal costs incurred by the purchaser and/or others). The subsidiary then recovers the loan or, if the loan has been foreclosed, the underlying collateral. The subsidiary is exposed to any losses on the repurchased loans, taking into account any recoveries on the collateral. In some instances, rather than repurchase the loans, a subsidiary may agree to make cash payments to make an investor whole on losses or to settle repurchase claims, possibly including claims for attorneys’ fees and interest. In addition, our subsidiaries may be required to indemnify certain purchasers and others against losses they incur as a result of certain breaches of representations and warranties.

These subsidiaries, in total, originated and sold to non-affiliates approximately \$111 billion original principal balance of mortgage loans between 2005 and 2008, which are the years (or “vintages”) with respect to which our subsidiaries have received the vast majority of the repurchase requests and other related claims.

The following table presents the original principal balance of mortgage loan originations, by vintage for 2005 through 2008, for the three general categories of purchasers of mortgage loans and the estimated unpaid principal balance as of March 31, 2015 and December 31, 2014:

Table 14.1: Unpaid Principal Balance of Mortgage Loans Originated and Sold to Third Parties Based on Category of Purchaser

(Dollars in billions)	Estimated Unpaid Principal Balance		Original Principal Balance				
	March 31, 2015	December 31, 2014	Total	2008	2007	2006	2005
GSEs	\$2	\$3	\$11	\$1	\$4	\$3	\$3
Insured Securitizations	4	4	20	0	2	8	10
Uninsured Securitizations and Other	16	16	80	3	15	30	32
Total	\$22	\$23	\$111	\$4	\$21	\$41	\$45

Between 2005 and 2008, our subsidiaries sold an aggregate amount of \$11 billion in original principal balance mortgage loans to the GSEs.

Of the \$20 billion in original principal balance of mortgage loans sold directly by our subsidiaries to private-label purchasers who placed the loans into securitizations supported by bond insurance (“Insured Securitizations”), approximately 48% of the original principal balance was covered by bond insurance. Further, approximately \$16 billion original principal balance was placed in securitizations as to which the monoline bond insurers have made

repurchase requests or loan file requests to one of our subsidiaries (“Active Insured Securitizations”) and the remaining approximately \$4 billion original principal balance was placed in securitizations as to which the monoline bond insurers have not made repurchase requests or loan file requests to one of our subsidiaries (“Inactive Insured Securitizations”). Insured Securitizations often allow the monoline bond insurer to act independently of the investors. Bond insurers typically have indemnity agreements directly with both the mortgage originators and the securitizers, and they often have super-majority rights within the trust documentation that allow them to direct trustees to pursue mortgage repurchase requests without coordination with other investors.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Because we do not service most of the loans our subsidiaries sold to others, we do not have complete information about the current ownership of a portion of the \$80 billion in original principal balance of mortgage loans not sold directly to GSEs or placed in Insured Securitizations. We have determined based on information obtained from third-party databases that about \$48 billion original principal balance of these mortgage loans was placed in private-label publicly issued securitizations not supported by bond insurance (“Uninsured Securitizations”). An additional approximately \$22 billion original principal balance of mortgage loans were initially sold to private investors as whole loans. Various known and unknown investors purchased the remaining \$10 billion original principal balance of mortgage loans.

With respect to the \$111 billion in original principal balance of mortgage loans originated and sold to others between 2005 and 2008, we estimate that approximately \$22 billion in unpaid principal balance remains outstanding as of March 31, 2015, of which approximately \$4 billion in unpaid principal balance is at least 90 days delinquent.

Approximately \$22 billion in losses have been realized by third parties. Because we do not service most of the loans we sold to others, we do not have complete information about the underlying credit performance levels for some of these mortgage loans. These amounts reflect our best estimates, including extrapolations of underlying credit performance where necessary. These estimates could change as we get additional data or refine our analysis.

The subsidiaries had open repurchase requests relating to approximately \$2.5 billion original principal balance of mortgage loans as of March 31, 2015, unchanged from December 31, 2014. Currently, repurchase demands predominantly relate to the 2006 and 2007 vintages. We have received relatively few repurchase demands from the 2008 and 2009 vintages, mostly because GreenPoint ceased originating mortgages in August 2007.

The following table presents information on pending repurchase requests by counterparty category and timing of initial repurchase request. The amounts presented are based on original loan principal balances.

Table 14.2: Open Pipeline All Vintages (all entities)<sup>(1)</sup>

(Dollars in millions)	GSEs	Insured Securitizations	Uninsured Securitizations and Other	Total
Open claims as of December 31, 2013	\$89	\$1,614	\$1,122	\$2,825
Gross new demands received	22	0	742	764
Loans repurchased/made whole	(31)	) 0	(5)	) (36)
Demands rescinded	(64)	) (965)	) (12)	) (1,041)
Open claims as of December 31, 2014	\$16	\$649	\$1,847	\$2,512
Gross new demands received	6	0	1	7
Loans repurchased/made whole	(3)	) 0	(1)	) (4)
Demands rescinded	(2)	) (1)	) (8)	) (11)
Open claims as of March 31, 2015	\$17	\$648	\$1,839	\$2,504

The open pipeline includes all repurchase requests ever received by our subsidiaries where either the requesting party has not formally rescinded the repurchase request and where our subsidiary has not agreed to either repurchase the loan at issue or make the requesting party whole with respect to its losses. Accordingly, repurchase requests denied by our subsidiaries and not pursued by the counterparty remain in the open pipeline, with the exception of certain aged repurchase requests submitted by parties without contractual standing to pursue such requests, which may be removed from the pipeline. Finally, the amounts reflected in this chart are the original principal balance amounts of the mortgage loans at issue and do not correspond to the losses our subsidiary would incur upon the repurchase of these loans.

(1)





Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

The following table summarizes changes in our representation and warranty reserve for the three months ended March 31, 2015 and 2014:

Table 14.3: Changes in Representation and Warranty Reserve<sup>(1)</sup>

(Dollars in millions)	Three Months Ended March 31,	
	2015	2014
Representation and warranty reserve, beginning of period	\$731	\$1,172
Provision (benefit) for mortgage representation and warranty losses:		
Recorded in continuing operations	1	14
Recorded in discontinued operations	(19 )	(47 )
Total benefit for mortgage representation and warranty losses	(18 )	(33 )
Net realized losses	(40 )	(11 )
Representation and warranty reserve, end of period	\$673	\$1,128

<sup>(1)</sup> Reported on our consolidated balance sheets as a component of other liabilities.

The following table summarizes the allocation of our representation and warranty reserve as March 31, 2015 and 2014:

Table 14.4: Allocation of Representation and Warranty Reserve

(Dollars in millions, except for loans sold)	Reserve Liability		Loans Sold 2005 to 2008 <sup>(1)</sup>
	March 31, 2015	December 31, 2014	
Selected period-end data:			
GSEs and Active Insured Securitizations	\$492	\$499	\$27
Inactive Insured Securitizations and Others	181	232	84
Total <sup>(2)</sup>	\$673	\$731	\$111

<sup>(1)</sup> Reflects, in billions, the total original principal balance of loans originated by our subsidiaries and sold to third-party investors between 2005 and 2008.

<sup>(2)</sup> The total reserve liability includes an immaterial amount related to loans that were originated after 2008.

We established reserves for the \$11 billion original principal balance of GSE loans, based on open claims and historic repurchase rates. We have entered into and completed repurchase or settlement agreements with respect to the majority of our repurchase exposure within this category.

Our reserves also could be impacted by any claims which may be brought by governmental agencies under the Financial Institutions Reform, Recovery, and Enforcement Act ("FIRREA"), the False Claims Act, or other federal or state statutes. For example, GreenPoint and Capital One have received requests for information and/or subpoenas from various governmental regulators and law enforcement authorities, including members of the RMBS Working Group, relating to the origination of loans for sale to the GSEs and to RMBS participants. We are cooperating with these regulators and other authorities in responding to such requests.

For the \$16 billion original principal balance in Active Insured Securitizations, our reserving approach is based upon the expected resolution of litigation with the monoline bond insurers. Accordingly, our representation and warranty reserves for this category are litigation reserves. In establishing litigation reserves for this category, we consider the current and future monoline insurer losses inherent within the securitization and apply legal judgment to the developing factual and legal record to estimate the liability for each securitization. We consider as factors within the analysis our own past monoline settlements in addition to publicly available industry monoline settlements. Our

reserves with respect to the U.S. Bank Litigation, referenced below, are contained within the Active Insured Securitization reserve category. Further, to the extent we have litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by monoline bond insurers against third-party securitizations sponsors, where one of our subsidiaries provided some or all of the mortgage collateral within the securitization but is not a defendant in the litigation, such reserves are also contained within this category.

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the \$4 billion original principal balance of mortgage loans in the Inactive Insured Securitizations category and the \$48 billion original principal balance of mortgage loans in the Uninsured Securitizations category, we establish reserves based on an assessment of probable and estimable legal liability, if any, utilizing both our own experience and publicly available industry settlement information to estimate lifetime liability. In contrast with the bond insurers in the Insured Securitizations, investors in Uninsured Securitizations often face a number of legal and logistical hurdles before they can force a securitization trustee to pursue mortgage repurchases, including the need to coordinate with a certain percentage of investors holding the securities and to indemnify the trustee for any litigation it undertakes. Accordingly, we only reserve for such exposures when a trustee or investor with standing brings claims and it is probable we have incurred a loss. Some Uninsured Securitization investors from this category are currently suing investment banks and securitization sponsors under federal and/or state securities laws. Although we face some indirect indemnity risks from these litigations, we generally have not established reserves with respect to these indemnity risks because we do not consider them to be both probable and reasonably estimable liabilities. In addition, to the extent we have litigation reserves with respect to indemnification risks from certain representation and warranty lawsuits brought by parties who purchased loans from our subsidiaries and subsequently re-sold the loans into securitizations, such reserves are also contained within this category.

For the \$22 billion original principal balance of mortgage loans sold to private investors as whole loans, we establish reserves by relying on our historical and anticipated claims and repurchase rates to estimate lifetime liability.

The aggregate reserve for all three subsidiaries totaled \$673 million as of March 31, 2015, compared to \$731 million as of December 31, 2014. We recorded a net benefit for mortgage representation and warranty losses of \$18 million (which includes a provision of \$1 million before taxes in continuing operations and a benefit of \$19 million before taxes in discontinued operations) in the first quarter of 2015. The decrease in the representation and warranty reserve was primarily driven by claims paid and legal developments including settlements.

As part of our business planning processes, we have considered various outcomes relating to the future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of March 31, 2015 is approximately \$2.1 billion, remains unchanged from our estimate at December 31, 2014. The estimate as of March 31, 2015 covers all reasonably possible losses relating to representation and warranty claim activity, including those relating to the U.S. Bank Litigation, the FHFA Litigation, and the LXS Trust Litigation described below.

In estimating reasonably possible future losses in excess of our current reserves, we assume a portion of the inactive securitizations become active and for all Insured Securitizations, we assume loss rates on the high end of those observed in monoline settlements or court rulings. For our remaining GSE exposures, Uninsured Securitizations and whole loan exposures, our reasonably possible risk estimates assume lifetime loss rates and claims rates at the highest levels of our past experience and also consider the limited instances of observed settlements. We do not assume claim rates or loss rates for these risk categories will be as high as those assumed for the Active Insured Securitizations, however, based on industry precedent. Should the number of claims or the loss rates on these claims increase significantly, our estimate of reasonably possible risk would increase materially. We also assume that we will resolve any loan repurchase requests relating to loans originated more than six years ago at a discount as compared to those originated within six years of a repurchase claim because of the pending legal arguments in various matters concerning the applicable statute of limitations.

Notwithstanding our ongoing attempts to estimate a reasonably possible amount of future losses beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimate of the amount of reasonably possible losses. Our reserve and reasonably possible

estimates involve considerable judgment and reflect that there is still significant uncertainty regarding numerous factors that may impact the ultimate loss levels, including, but not limited to: litigation outcomes; court rulings; governmental enforcement decisions; future repurchase and indemnification claim levels; securitization trustees pursuing mortgage repurchase litigation unilaterally or in coordination with investors; investors successfully pursuing repurchase litigation independently and without the involvement of the trustee as a party; ultimate repurchase and indemnification rates; future mortgage loan performance levels; actual recoveries on the collateral; and macroeconomic conditions (including unemployment levels and housing prices). In light of the significant uncertainty as to the ultimate liability our subsidiaries may incur from these matters, an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

Litigation

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation related matters when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Below we provide a description of potentially material legal proceedings and claims.

For some of the matters disclosed below, we are able to determine estimates of potential future outcomes that are not probable and reasonably estimable outcomes justifying either the establishment of a reserve or an incremental reserve build, but which are reasonably possible outcomes. For other disclosed matters, such an estimate is not possible at this time. For those matters below where an estimate is possible (excluding the reasonably possible future losses relating to the U.S. Bank Litigation, the FHFA Litigation, and the LXS Trust Litigation, because reasonably possible losses with respect to those litigations are included within the reasonably possible representation and warranty liabilities discussed above) management currently estimates the reasonably possible future losses beyond what was in our reserve as of March 31, 2015 was approximately \$200 million. Notwithstanding our attempt to estimate a reasonably possible range of loss beyond our current accrual levels for some litigation matters based on current information, it is possible that actual future losses will exceed both the current accrual level and the range of reasonably possible losses disclosed here. Given the inherent uncertainties involved in these matters, especially those involving governmental actors, and the very large or indeterminate damages sought in some of these matters, there is significant uncertainty as to the ultimate liability we may incur from these litigation matters and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

Interchange Litigation

In 2005, a number of entities, each purporting to represent a class of retail merchants, filed antitrust lawsuits (the “Interchange 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. The complaints seek injunctive relief and civil monetary damages, which could be trebled. Separately, a number of large merchants have asserted similar claims against Visa and MasterCard only. In October 2005, the class and merchant Interchange Lawsuits were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. In July 2012, the parties executed and filed with the court a Memorandum of Understanding agreeing to resolve the litigation on certain terms set forth in a settlement agreement attached to the Memorandum. The class settlement provides for, among other things, (i) payments by defendants to the class and individual plaintiffs totaling approximately \$6.6 billion; (ii) a distribution to the class merchants of an amount equal to 10 basis points of certain interchange transactions for a period of eight months; and (iii) modifications to certain Visa and MasterCard rules regarding point of sale practices. In December 2013, the court granted final approval of the proposed class settlement, which was appealed to the Second Circuit Court of Appeals in January 2014. Several merchant plaintiffs have also opted out of the class settlement, some of which have sued MasterCard, Visa and various member banks, including Capital One (collectively “the Opt-Out Plaintiffs”). Relatedly, in December 2013, individual consumer plaintiffs also filed a proposed national class action against a number of banks, including Capital One, alleging that because the banks conspired to fix interchange fees, consumers were forced to pay more for the fees than appropriate. The consumer case and virtually all of the opt-out cases were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes, including discovery. In November 2014, the court dismissed the proposed consumer class action. The remaining consolidated cases are in their preliminary stages, and Visa and MasterCard have settled a number of individual opt-out cases, requiring non-material payments from all banks, including Capital One.

As members of Visa, our subsidiary banks have indemnification obligations to Visa with respect to final judgments and settlements, including the Interchange Lawsuits. In the first quarter of 2008, Visa completed an IPO of its stock. With IPO proceeds, Visa established an escrow account for the benefit of member banks to fund certain litigation settlements and claims, including the Interchange Lawsuits. As a result, in the first quarter of 2008, we reduced our Visa-related indemnification liabilities of \$91 million recorded in other liabilities with a corresponding reduction of other non-interest expense. We made an election in accordance with the accounting guidance for fair value option for financial assets and liabilities on the indemnification guarantee to Visa, and the fair value of the guarantee as of March 31, 2015 was zero. Separately, in January 2011, we entered into a MasterCard Settlement and Judgment Sharing Agreement, along with other defendant banks, which apportions between MasterCard and its member banks the costs and liabilities of any judgment or settlement arising from the Interchange Lawsuits. In March 2011, a furniture store owner named Mary Watson filed a proposed class action in the Supreme Court of British Columbia against Visa, MasterCard, and several banks, including Capital One (the “Watson Litigation”). The lawsuit asserts, among other

Table of ContentsCAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

things, that the defendants conspired to fix the merchant discount fees that merchants pay on credit card transactions in violation of Section 45 of the Competition Act and seeks unspecified damages and injunctive relief. In addition, Capital One has been named as a defendant in similar proposed class action claims filed in other jurisdictions in Canada. In March 2014, the court granted a partial motion for class certification. Both parties appealed the decision to the Court of Appeal for British Columbia, which heard oral argument in December 2014. In April 2015, the merchant plaintiffs and Capital One agreed to settle all matters filed in Canada as to Capital One, subject to court approval.

**Credit Card Interest Rate Litigation**

The Capital One Bank Credit Card Interest Rate Multi-district Litigation matter was created as a result of a June 2010 transfer order issued by the U.S. Judicial Panel on Multi-district Litigation (“MDL”), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Georgia two pending putative class actions against COBNA-Nancy Mancuso, et al. v. Capital One Bank (USA), N.A., et al., (E.D. Virginia); and Kevin S. Barker, et al. v. Capital One Bank (USA), N.A., (N.D. Georgia). A third action, Jennifer L. Kolkowski v. Capital One Bank (USA), N.A., (C.D. California) was subsequently transferred into the MDL. In August 2010, the plaintiffs in the MDL filed a Consolidated Amended Complaint alleging that COBNA breached its contractual obligations, and violated the Truth in Lending Act (“TILA”), the California Consumers Legal Remedies Act, the Unfair Competition Law (“UCL”), the California False Advertising Act, the New Jersey Consumer Fraud Act, and the Kansas Consumer Protection Act when it raised interest rates on certain credit card accounts. As a result of a settlement in another matter, the California-based UCL and TILA claims in the MDL are extinguished. The MDL plaintiffs seek statutory damages, restitution, attorney’s fees and an injunction against future rate increases. In August 2011, after the completion of fact discovery, Capital One filed a motion for summary judgment, which was granted in September 2014. Plaintiffs filed a Notice of Appeal to the Eleventh Circuit Court of Appeals in October 2014.

**Mortgage Repurchase Litigation**

In February 2009, GreenPoint was named as a defendant in a lawsuit commenced in the New York County Supreme Court, by U.S. Bank, N. A., Syncora Guarantee Inc. and CIFG Assurance North America, Inc. (the “U.S. Bank Litigation”). Plaintiffs allege, among other things, that GreenPoint breached certain representations and warranties in two contracts pursuant to which GreenPoint sold approximately 30,000 mortgage loans having an aggregate original principal balance of approximately \$1.8 billion to a purchaser that ultimately transferred most of these mortgage loans to a securitization trust. Some of the securities issued by the trust were insured by Syncora and CIFG. Plaintiffs seek unspecified damages and an order compelling GreenPoint to repurchase the entire portfolio of 30,000 mortgage loans based on alleged breaches of representations and warranties relating to a limited sampling of loans in the portfolio, or, alternatively, the repurchase of specific mortgage loans to which the alleged breaches of representations and warranties relate. In March 2010, the court granted GreenPoint’s motion to dismiss with respect to plaintiffs Syncora and CIFG and denied the motion with respect to U.S. Bank. GreenPoint subsequently answered the complaint with respect to U.S. Bank, denying the allegations, and filed a counterclaim against U.S. Bank alleging breach of covenant of good faith and fair dealing. In February 2012, the court denied plaintiffs’ motion for leave to file an amended complaint and dismissed Syncora and CIFG from the case. Syncora and CIFG appealed their dismissal to the New York Supreme Court, Appellate Division, First Department (the “First Department”), which affirmed the dismissal in April 2013. The New York Court of Appeals denied Syncora’s and CIFG’s motion for leave to appeal the First Department’s decision in February 2014. Therefore, the case is now proceeding with U.S. Bank as the sole plaintiff. In May, June, and July 2012, FHFA (acting as conservator for Freddie Mac) filed three summonses with notice in the New York state court against GreenPoint, on behalf of the trustees for three RMBS trusts backed by loans originated by GreenPoint with an aggregate original principal balance of \$3.4 billion. In January 2013, the plaintiffs filed an amended consolidated complaint in the name of the three trusts, acting by the respective trustees, alleging breaches of contractual representations and warranties regarding compliance with GreenPoint underwriting guidelines relating to

certain loans (the “FHFA Litigation”). Plaintiffs seek specific performance of the repurchase obligations with respect to the loans for which they have provided notice of alleged breaches as well as all other allegedly breaching loans, rescissory damages, indemnification, costs and interest. GreenPoint moved to dismiss the case as untimely under New York’s statute of limitations, and the court denied the motion without prejudice to renew it after the completion of relevant discovery.

In July 2013, Lehman XS Trust, Series 2006-4N, by its trustee U.S. Bank, N.A. filed a lawsuit in the Southern District of New York against GreenPoint alleging breaches of representations and warranties made in certain loan sale agreements, pursuant to which GreenPoint sold mortgage loans with an original principal balance of \$915 million to Lehman Brothers for securitization



Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

and sale to investors. The lawsuit (“the LXS Trust Litigation”) seeks specific performance of GreenPoint’s obligation to repurchase certain allegedly breaching loans, or in the alternative, the repurchase of all loans in the trust, the award of rescissory damages, costs, fees and interest. In January 2014, the court granted GreenPoint’s motion to dismiss based on the statute of limitations, ruling that New York’s six-year statute of limitations began running no later than the time of the mortgage securitization. The plaintiff has appealed the dismissal of the complaint.

As noted above in the section entitled Mortgage Representation and Warranty Liabilities, the Company’s subsidiaries establish reserves with respect to representation and warranty litigation matters, where appropriate, within the Company’s overall representation and warranty reserves. Please see above for more details.

Anti-Money Laundering Investigation

Capital One has received requests for subpoenas and testimony from the New York District Attorney’s Office (“NYDA”) with respect to certain check casher clients of the Commercial Banking business and Capital One’s anti-money laundering program. In early 2015, we received similar requests from the U.S. Department of Justice (“DOJ”) and the Financial Crimes Enforcement Network (“FinCEN”) of the U.S. Department of Treasury. Capital One is cooperating with all agencies involved in the investigation.

Subprime Auto Loan Investigations

Capital One has received a subpoena from the NYDA seeking information regarding the Company’s subprime auto finance business. Capital One has also received a subpoena from the DOJ’s New Jersey office requesting information related to subprime auto origination and securitization activities. Capital One is cooperating with both investigations.

Checking Account Overdraft Litigation

In May 2010, Capital One Financial Corporation and COBNA were named as defendants in a putative class action named *Steen v. Capital One Financial Corporation, et al.*, filed in the U.S. District Court for the Eastern District of Louisiana. Plaintiff challenges practices relating to fees for overdraft and non-sufficient funds fees on consumer checking accounts. Plaintiff alleges that our methodology for posting transactions to customer accounts was designed to maximize the generation of overdraft fees, supporting claims for breach of contract, breach of the covenant of good faith and fair dealing, unconscionability, conversion, unjust enrichment and violations of state unfair trade practices laws. Plaintiff seeks a range of remedies, including restitution, disgorgement, injunctive relief, punitive damages and attorneys’ fees. In May 2010, the case was transferred to the Southern District of Florida for coordinated pre-trial proceedings as part of a multi-district litigation (“MDL”) involving numerous defendant banks, captioned *In re Checking Account Overdraft Litigation*. In January 2011, plaintiffs filed a second amended complaint against CONA in the MDL court. In February 2011, CONA filed a motion to dismiss the second amended complaint. In March 2011, the MDL court granted CONA’s motion to dismiss claims of breach of the covenant of good faith and fair dealing under Texas law, but denied the motion to dismiss in all other respects. In June 2012, the MDL court granted plaintiff’s motion for class certification. The parties reached an agreement to resolve the class claims in October 2014, and the court preliminarily approved the proposed settlement in January 2015.

Intellectual Ventures Corp., et al.

In June 2013, Intellectual Ventures I, LLC and Intellectual Ventures II, LLC (collectively “IV”) sued Capital One Financial Corp., Capital One Bank (USA), N.A. and Capital One, N.A. (collectively “Capital One”) for patent infringement in the U.S. District Court for the Eastern District of Virginia. In the Complaint, IV alleges infringement of patents related to various business processes across the Capital One enterprise. IV simultaneously filed patent infringement actions against numerous other financial institutions on the same and other patents in several other federal courts. Capital One’s motion to dismiss was denied without prejudice in August 2013. Capital One filed an answer and counterclaim alleging antitrust violations. In December 2013, the court dismissed Capital One’s counterclaim and decided the parties’ arguments on claim construction. IV agreed to dismiss two patents in suit, and following claim construction, asked for a stipulation of non-infringement for one patent with an opportunity to appeal

the court's decision regarding claim construction. In April 2014, the court granted Capital One's motion for summary judgment and found that the two remaining patents were either unpatentable or indefinite. In May 2014, IV appealed to the Federal Circuit, which will hear oral argument in May 2015.

In January 2014, IV filed a second suit against Capital One for patent infringement in the U.S. District Court for the District of Maryland. In the complaint, IV again alleges infringement of patents related to various business practices across the Capital One enterprise. IV has voluntarily dismissed one of the patents against Capital One. The parties are currently engaged in discovery and

Table of Contents

CAPITAL ONE FINANCIAL CORPORATION  
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

preparing for claim construction on the remaining patents. In March 2015, the court granted Capital One's motion for leave to add a counterclaim for antitrust violations by IV.

Telephone Consumer Protection Act Litigation

In December 2012, the Capital One Telephone Consumer Protection Act ("TCPA") Litigation Multi-district Litigation matter was created as a result of a transfer order issued by the U.S. Judicial Panel on Multi-district Litigation ("TCPA MDL"), which consolidated for pretrial proceedings in the U.S. District Court for the Northern District of Illinois three pending putative class actions-Bridgett Amadeck, et al. v. Capital One Financial Corporation, et al. (W.D.

Washington); Nicholas Martin, et al. v. Capital One Bank (USA), N.A., et al. (N.D. Illinois); and Charles C. Patterson v. Capital One Bank (USA), N.A., et al. (N.D. Illinois) and several individual lawsuits. In February 2013, the putative class action plaintiffs in the TCPA MDL filed a Consolidated Master Class Action Complaint alleging that COBNA and/or entities acting on its behalf violated the TCPA by contacting consumers on their cellular telephones using an automatic telephone dialing system and/or artificial or prerecorded voice without first obtaining prior express consent to do so. The plaintiffs seek statutory damages for alleged negligent and willful violations of the TCPA, attorneys' fees, costs, and injunctive relief. In June 2014, the parties filed a settlement agreement resolving the litigation. The court granted preliminary approval of the class settlement in July 2014, and granted final approval in February 2015. Some class members filed Notices of Appeal to the Seventh Circuit Court of Appeals in February and March 2015.

Other Pending and Threatened Litigation

In addition, we are commonly subject to various pending and threatened legal actions relating to the conduct of our normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of all such other pending or threatened legal actions will not be material to our consolidated financial position or our results of operations.

Table of Contents

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Item 4. Controls and Procedures

Overview

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

(a) Disclosure Controls and Procedures

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our financial reports is recorded, processed, summarized and reported within the time periods specified by SEC rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in evaluating and implementing possible controls and procedures.

Evaluation of Disclosure Controls and Procedures

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (the “Exchange Act”), our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of March 31, 2015, the end of the period covered by this Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of March 31, 2015, at a reasonable level of assurance, in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified by the SEC rules and forms.

(b) Changes in Internal Control Over Financial Reporting

We regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. There were no changes in internal control over financial reporting that occurred in the first quarter of 2015 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

Table of Contents

## PART II—OTHER INFORMATION

## Item 1. Legal Proceedings

The information required by Item 103 of Regulation S-K is included in “Note 14—Commitments, Contingencies, Guarantees and Others.”

## Item 1A. Risk Factors

We are not aware of any material changes from the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2014 Form 10-K.

## Item 2. Unregistered Sales of Equity Securities and Use of Proceeds

The following table presents information related to repurchases of shares of our common stock for each calendar month in the first quarter of 2015.

(Dollars in millions, except per share information)	Total Number of Shares Purchased <sup>(1)</sup>	Average Price Paid per Share <sup>(2)</sup>	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program <sup>(2)</sup>
January	1,902,000	\$78.50	1,902,000	\$ 351
February	2,480,461	77.28	2,055,700	192
March	2,784,970	79.52	2,405,650	—
Total	7,167,431	78.48	6,363,350	

Primarily comprised of repurchases under the \$2.5 billion common stock repurchase program authorized by our Board of Directors and announced on March 26, 2014, which authorized share repurchases through March 31, 2015. Also includes 424,761 shares and 379,320 shares purchased in February and March respectively, related to the withholding of shares to cover taxes on restricted stock awards whose restrictions have lapsed.

<sup>(2)</sup> Amounts exclude commission costs.

## Item 3. Defaults Upon Senior Securities

None.

## Item 4. Mine Safety Disclosures

Not applicable.

## Item 5. Other Information

None.

## Item 6. Exhibits

An index to exhibits has been filed as part of this report and is incorporated herein by reference.

Table of Contents

SIGNATURES

Pursuant to the requirements of Section 13 of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

CAPITAL ONE FINANCIAL CORPORATION

Date: May 5, 2015

By: /s/ STEPHEN S. CRAWFORD  
Stephen. S. Crawford  
Chief Financial Officer

135

Capital One Financial Corporation  
(COF)

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Table of Contents

EXHIBIT INDEX

CAPITAL ONE FINANCIAL CORPORATION

QUARTERLY REPORT ON FORM 10-Q

DATED MARCH 31, 2015

Commission File No. 1-13300

The following exhibits are incorporated by reference or filed herewith. References to (i) the “2003 Form 10-K” are to the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004; and (ii) the “2011 Form 10-K” are to the Company’s Annual Report on Form 10-K for the year ended December 31, 2011, filed on February 28, 2012.

Exhibit No.	Description
2.1.1	Purchase and Sale Agreement, dated as of June 16, 2011, by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, filed on June 22, 2011).
2.1.2	First Amendment to the Purchase and Sale Agreement by and among Capital One Financial Corporation, ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp, dated as of February 17, 2012 (incorporated by reference to Exhibit 2.2.2 of the 2011 Form 10-K).
2.2.1	Purchase and Assumption Agreement, dated as of August 10, 2011, by and among Capital One Financial Corporation, HSBC Finance Corporation, HSBC USA Inc. and HSBC Technology and Services (USA) Inc. (incorporated by reference to Exhibit 2.1 of the Current Report on Form 8-K, filed on August 12, 2011).
2.2.2	Purchaser Transition Services Agreement between HSBC Technology and Services (USA) Inc. and Capital One Services, LLC, dated as of May 1, 2012 (incorporated by reference to Exhibit 10.1 of the Quarterly Report on Form 10-Q for the period ended June 30, 2012).
3.1	Restated Certificate of Incorporation of Capital One Financial Corporation, (as restated April 30, 2015) (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on May 4, 2015).
3.2	Amended and Restated Bylaws of Capital One Financial Corporation, dated April 30, 2015 (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed on May 4, 2015).
3.3.1	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B, dated August 16, 2012 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on August 20, 2012).
3.3.2	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C, dated June 11, 2014 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed June 12, 2014).
3.3.3	Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D, dated October 29, 2014 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed October 31, 2014).
4.1.1	Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the 2003 Form 10-K).
4.1.2	Warrant Agreement, dated December 3, 2009, between Capital One Financial Corporation and Computershare Trust Company, N.A. (incorporated by reference to the Exhibit 4.1 of the Form 8-A, filed on December 4, 2009).
4.1.3	Deposit Agreement, dated August 20, 2012 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed on August 20, 2012).
4.2	Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt are not filed. The Company agrees to furnish a copy thereof to the SEC upon request.
12.1*	Computation of Ratio of Earnings to Fixed Charges and Earnings to Combined Fixed Charges and Preferred Stock Dividends.

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18.1\* Preferability Letter from Independent Registered Public Accounting Firm.  
31.1\* Certification of Richard D. Fairbank.  
31.2\* Certification of Stephen S. Crawford.  
32.1\* Certification\*\* of Richard D. Fairbank.  
32.2\* Certification\*\* of Stephen S. Crawford.  
101.INS\* XBRL Instance Document.  
101.SCH\* XBRL Taxonomy Extension Schema Document.  
101.CAL\* XBRL Taxonomy Extension Calculation Linkbase Document.  
101.DEF\* XBRL Taxonomy Extension Definition Linkbase Document.  
101.LAB\* XBRL Taxonomy Extension Label Linkbase Document.  
101.PRE\* XBRL Taxonomy Extension Presentation Linkbase Document.

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\* Indicates a document being filed with this Form 10-Q.

\*\* Information in this Form 10-K furnished herewith shall not be deemed to be “filed” for the purposes of Section 18 of the 1934 Act or otherwise subject to the liabilities of that section.