Capital One Financial Corporation

Dodd-Frank Act Company-Run Stress Test Disclosures

March 14, 2013

Explanatory Note

Section 165 of the Dodd Frank Wall Street Reform and Consumer Protection Act of 2010 (the "Dodd-Frank Act") requires certain bank holding companies, including Capital One, to conduct annual stress tests to assess the potential impact of certain scenarios on the consolidated earnings, losses, and capital of each bank holding company, taking into account its current condition, risks, exposures, strategies and activities. Capital One conducted the stress tests in the fourth quarter of 2012 using its actual performance through the third quarter of 2012, information available, and assumptions made at that time. Any results, events or financial performance after the third quarter of 2012, are not reflected in the stress test results. Capital One reported its full results of the stress tests to the Federal Reserve Bank (the "Federal Reserve") and the Office of the Comptroller of the Currency ("OCC") on January 7, 2013.

The Dodd-Frank Act also requires Capital One to disclose a summary of the stress test results under the Supervisory Severely Adverse Scenario. The Supervisory Severely Adverse Scenario was provided by the Federal Reserve and OCC and represents a hypothetical economic situation that is significantly more adverse than expected and is consistent with a severe recession. The summary of results must include estimates of the aggregate impact of the stressed economic scenario on certain financial variables over the 9-quarter planning horizon. In addition, Capital One must provide estimates of its regulatory capital ratios and Tier 1 common ratio.

Certain statements and estimates below may be forward-looking, including those that discuss, among other things: projections, revenues, income, capital measures, accruals for litigation and for other claims against Capital One, future financial and operating results, Capital One's plans, objectives, expectations and intentions, and the assumptions that underlie these matters. Capital One cautions readers that the results in the summary below are not forecasts, predictions of future performance or measures of its solvency, and that actual results could differ materially from those contained in this summary. In addition, these results do not represent Capital One's current expectations regarding future results of operations or financial condition. They are based on hypothetical scenarios and other assumptions used for the sole purpose of conducting the required stress tests, and Capital One makes no assurances or predictions about the likelihood of any of these scenarios or assumptions actually occurring. Capital One does not undertake any obligation to update or revise any of the information contained herein whether as a result of new information, future events or otherwise. In addition, the stress test results below differ from the stress test results produced by the Federal Reserve, which is conducting a similar exercise, due to differences in methodologies and assumptions used to produce the results.

Scenario Description

The Supervisory Severely Adverse scenario defined by the Federal Reserve and OCC assumes significant deterioration in economic conditions from current levels, creating large reductions in employment, house prices and GDP, among other factors. Under this scenario, the U.S. is assumed to fall into a severe recession, with the unemployment rate increasing 4 percentage points to 12% and remaining above any level experienced over the last 70 years from the middle of 2013 to the end of 2014, the end of the scenario. House prices are assumed to decline more than 20% by the end of 2014, with commercial real estate prices assumed to decline by a similar amount. Real GDP is assumed to decline nearly 5% between the third quarter of 2012 and the end of 2013.

In addition to the adverse economic assumptions, we have incorporated a number of idiosyncratic risks in the Supervisory Severely Adverse scenario, including the risk of higher representation and warranty claims arising from mortgage originations from 2005 to 2008, higher other litigation expenses, elevated levels of operating expenses and unexpected operational losses, and idiosyncratic risks in our Commercial portfolio. While these other risks are not necessarily correlated with the economic conditions reflected in the Supervisory Severely Adverse scenario, we assume that they could manifest in an environment generally characterized by the types of conditions described in the scenario. Therefore, we included the full and simultaneous impact of all of these risks in the Supervisory Severely Adverse scenario on top of the impacts assumed to result as a direct consequence of the adverse economic environment. Adding the impact of these idiosyncratic risks to the impacts of the stressed economic environment provides a view of our capital performance in a scenario that we believe has a low probability of occurrence.

Overview of Stress Test Methodology and Approach

Our stress test methodology considers a broad range of potential stresses to our balance sheet and capital, including the implications to interest rate risk, balance sheet composition, pre-provision net revenue, charge-offs and allowance for loan losses, and tax position. The stress analysis and underlying assumptions are informed by a number of factors, including our experience in the 2008 financial crisis and subsequent recession. The analysis was conducted in November and December 2012 with information available to us at that time.

In the Supervisory Severely Adverse scenario, the largest impact on capital comes from changes in credit performance. For our credit card and mortgage portfolios, we project stressed losses using account level econometric models, which incorporate Metropolitan Statistical Area (MSA) level variables. In other portfolios, we use more aggregated economic forecasting approaches that incorporate the specific macro-drivers relevant to each specific portfolio as well as customer and relationship-level attributes. In cases where our data is more limited (such as in the modeling of deposit behavior in extreme scenarios), we use more management judgment to inform our projections.

Table 1: Results of Capital One Internal Modeling in the Supervisory Severely Adverse Scenario under the DFA Stress Testing Rules

Projected Capital Ratios through Q4 2014 under the Dodd-Frank Act Stress Test Supervisory Severely Adverse Scenario

	Consolidated Parent (COFC)				Capital One Bank, NA (COBNA)				Capital One National Association (CONA)			
	Actual		Stressed Ratios		Actual		Stressed Ratios		Actual		Stressed Ratios	
	Q3 2012	Q4 2012	Q4 2014	Minimum	Q3 2012	Q4 2012	Q4 2014	Minimum	Q3 2012	Q4 2012	Q4 2014	Minimum
Tier 1 Common Ratio (%)	10.7%	11.0%	12.1%	9.2%	12.0%	11.3%	13.3%	10.4%	12.3%	13.6%	13.9%	12.0%
Tier 1 Capital Ratio (%)	12.7%	11.3%	12.6%	9.6%	12.0%	11.3%	13.3%	10.4%	12.3%	13.6%	13.9%	12.0%
Total Risk-based Capital Ratio (%)	15.0%	13.6%	14.8%	11.9%	15.4%	14.7%	17.7%	13.9%	13.6%	14.9%	15.2%	13.3%
Tier 1 Leverage Ratio (%)	9.9%	8.7%	9.1%	7.1%	10.8%	10.4%	11.0%	9.3%	10.2%	9.1%	8.5%	7.9%

Note: The capital ratios include capital actions as required under the Dodd-Frank Wall Street Reform and Consumer Protection Act ("DFA") stress testing rules. The DFA stress testing capital actions include the Company's actual capital actions taken in the first quarter of the planning horizon (Q4 2012). For the second through ninth quarters of the planning horizon (Q1 2013 – Q4 2014) the DFA stress testing capital actions include common stock dividends equal to the quarterly average dollar amount of common stock dividends that the Company paid in the previous year, payments on any other instrument that is eligible for inclusion in the numerator of a regulatory capital ratio equal to the stated dividend, interest, or principal due on such instrument during the quarter, issuance of common stock for employee compensation and an assumption of no redemption or repurchase of any capital instrument that is eligible for inclusion in the numerator of a regulatory capital ratio.

Projected Revenue, Losses, and Net Income Before Taxes for Q4 2012 through Q4 2014 under the Supervisory Severely Adverse Scenario

	Consolidated Parent (COFC)	
	$ in Billions	% of Average Assets[1]
Pre-Provision Net Revenue[2]	19.6	7.0%
Other Revenue[3]	0.0	0.0%
Less		
Provisions	20.3	7.2%
Realized Losses/(Gains) on Securities AFS/HTM	0.3	0.1%
Trading and Counterparty Losses[4]	0.0	0.0%
Other Losses/(Gains)[5]	0.0	0.0%
Equals		
Net Income before Taxes	(0.9)	-0.3%

1) Expressed on a 9 quarter cumulative basis as a percentage of average assets over the same time period.
2) Pre-provision net revenue includes stress adjustments for operational risk events, litigation expenses including mortgage representation and warranty and real estate held for sale.
3) Other revenue includes one-time income and (expense) items not included in pre-provision net revenue.
4) Trading and counterparty includes mark-to-market losses, changes in credit valuation adjustments (CVA) and incremental default losses.
5) Other losses/gains includes projected change in fair value of loans held for sale and loans held for investment measured under the fair-value option, and goodwill impairment losses.

Projected Loan Losses by Type of Loans for Q4 2012 through Q4 2014 under the Supervisory Severely Adverse Scenario

	Consolidated Parent (COFC)	
	$ in Billions	% of Avg. Portfolio Balance[1]
Loan Losses[2]		
First Lien Mortgages, Domestic	0.1	0.4%
Junior Liens and HELOCs, Domestic	0.1	4.8%
Commercial and Industrial	1.2	7.0%
Commercial Real Estate, Domestic	0.4	2.2%
Credit Cards	13.5	18.0%
Other Consumer	2.0	8.6%
Other Loans	0.1	1.5%
Total Loan Losses	17.5	9.6%

Note: Reflects loan classification under regulatory reporting FR Y9-C. This classification is different than how Capital One classifies loan product types for SEC reporting purposes. For example, FR Y9-C requires that Small Business Credit Card loans be reported under C&I, whereas these loans are reported under Credit Card for SEC reporting purposes.

1) 9 quarter cumulative losses as a percent of average balances over the same time period
2) C&I loans include small and medium enterprise loans and corporate cards. Other loans include international real estate loans. Average loan balances used to calculate portfolio loss rates exclude loans held for sale and loans held for investment under the fair-value option.

Description of Results

In the Supervisory Severely Adverse scenario, our capital ratios are projected to be lower than in our baseline, but would still remain well above current regulatory requirements. Our Tier 1 Common ratio is projected to decline to a low point of 9.2% in the fourth quarter of 2012, the quarter in which the risk manifests. This low point results primarily from reserve builds in our consumer lending businesses. We project capital accretion in each quarter after this initial quarter, from the first quarter of 2013 through the end of the scenario.

The largest impact to our income statement in the Supervisory Severely Adverse scenario is to the provision for credit losses. Provision for credit losses is projected to increase, initially driven by allowance builds in anticipation of credit deterioration and later by elevated charge-offs directly. Eventually, as the economic stress dissipates and our loan balances decline, we project allowance releases toward the end of the nine quarter forecasted period. In addition to the provision impact, revenues are projected to decline as the portfolio contracts and reversals of finance charges and past due fees increase with rising charge-offs. We expect rate cuts in deposits and other management actions to reduce costs and boost revenue to partially offset the decline in consumer demand for credit and thus lower revenues. We also expect marketing expense to decline primarily due to lower originations, while operating expenses would be reduced modestly as higher collections and recoveries costs and costs associated with the non-economic risks described above partially offset projected operating expense reductions due to lower originations and a smaller portfolio.

The largest impact to our balance sheet in the Supervisory Severely Adverse scenario is to the size of our loan portfolio. Our loan portfolio has a large concentration in credit card and auto loans. The combination of the rapid paydown of these loans in all scenarios including the effect of elevated charge-offs, as well as our ability to reduce marketing expense and new loan originations due to tighter underwriting and lower demand in this stressed environment, provides substantial support for capital levels by quickly reducing the amount of assets while at the same time improving near-term earnings through lower marketing expense and reduced provision for credit losses.

Combined, the adverse impact to capital driven by income statement impacts in the Supervisory Severely Adverse scenario are projected to be substantially offset by the capital benefits of a smaller balance sheet.