



# **Fourth Quarter 2019 Results**

**January 21, 2020**

# Forward-Looking Statements



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You should carefully consider the factors discussed above in evaluating these forward-looking statements. All information in these slides is based on the consolidated results of Capital One Financial Corporation, unless otherwise noted. A reconciliation of any non-GAAP financial measures included in this presentation can be found in Capital One's Current Report on Form 8-K filed January 21, 2020, available on its website at [www.capitalone.com](http://www.capitalone.com) under "Investors."

# Company Highlights

- Net income for the fourth quarter of 2019 of \$1.2 billion, or \$2.25 per diluted common share; full year 2019 net income of \$5.5 billion, or \$11.05 per diluted common share
  - Excluding adjusting items, net income per diluted common share for the fourth quarter of 2019 of \$2.49; full year 2019 of \$12.09<sup>(1)</sup>
- Pre-provision earnings increased 6% to \$3.3 billion for the fourth quarter of 2019 and remained flat year-over-year<sup>(2)</sup>
- Efficiency ratio of 56.03% for the fourth quarter of 2019 and 54.15% for the full year 2019
  - Efficiency ratio excluding adjusting items was 55.16% for the fourth quarter of 2019 and 52.67% for the full year 2019<sup>(1)</sup>
- Operating efficiency ratio of 46.47% for the fourth quarter of 2019 and 46.20% for the full year 2019
  - Operating efficiency ratio excluding adjusting items was 45.60% for the fourth quarter of 2019 and 44.76% for the full year 2019<sup>(1)</sup>
- Adjusting items in the quarter, which are excluded from diluted earnings per share (EPS) and efficiency ratio metrics (see slide 14 for additional information):

	Pre-Tax	Diluted EPS
<i>(Dollars in millions, except per share data)</i>	Impact	Impact
Initial allowance build on acquired Walmart portfolio	\$ 84	\$ 0.13
Walmart launch and related integration expenses	48	0.08
Cybersecurity Incident expenses, net of insurance	16	0.03

- Common equity Tier 1 capital ratio under Basel III Standardized Approach of 12.2% at December 31, 2019
- Repurchased 10 million common shares
- Period-end loans held for investment increased \$16.5 billion to \$265.8 billion
- Average loans held for investment increased \$12.7 billion to \$258.9 billion
- Period-end total deposits increased \$5.5 billion to \$262.7 billion
- Average total deposits increased \$5.0 billion to \$260.0 billion

Note: All comparisons are for the fourth quarter of 2019 compared with the third quarter of 2019 unless otherwise noted. Regulatory capital metrics and capital ratios as of December 31, 2019 are preliminary and therefore subject to change.

<sup>(1)</sup> Amounts excluding adjusting items are non-GAAP measures. See Appendix slides 14-15 for the reconciliation of non-GAAP measures to our reported results.

<sup>(2)</sup> Pre-provision earnings is calculated based on the sum of net interest income and non-interest income, less non-interest expense for the period.

# Current Expected Credit Losses (“CECL”) Adoption Impact<sup>(1)</sup>

## Allowance for credit losses by segment (\$M)

<i>(Dollars in millions)</i>	12/31/2019	CECL Adoption Impact	1/1/2020	% Increase
Credit card	\$ 5,395	\$ 2,269	\$ 7,664	42%
Consumer banking	1,038	502	1,540	48%
Commercial banking	775	101	876	13%
Total company	7,208	2,872	10,080	40%

## Adoption impact (\$M)

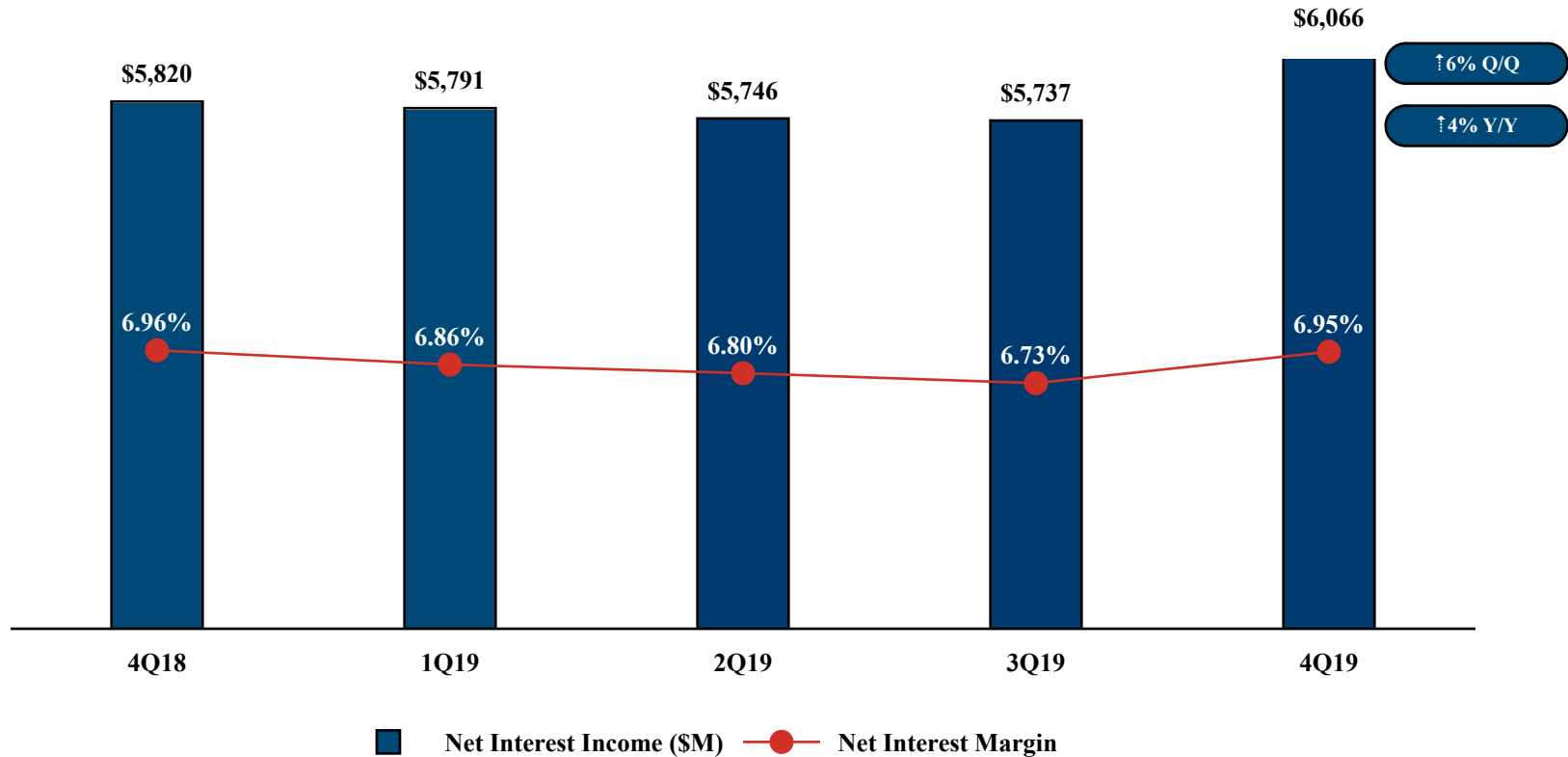
<i>(Dollars in millions)</i>	CECL Adoption Impact
Total company allowance increase	\$ 2,872
Other impacts	22
Total pre-tax impacts	2,894
Tax effect	(698)
Decrease to retained earnings	\$ 2,196

## CECL adoption impact

- We estimate the adoption of CECL effective on January 1, 2020 will increase our allowance by 40%
- Regulatory capital impact of \$2.9 billion (\$2.2 billion, net of tax) to be phased-in at 25% per year
- Phased-in adoption impact is expected to reduce our common equity Tier 1 capital ratio by 16 basis points in the first quarter of 2020

<sup>(1)</sup> The adoption impacts are estimated based on the data available at the time of the earnings presentation.

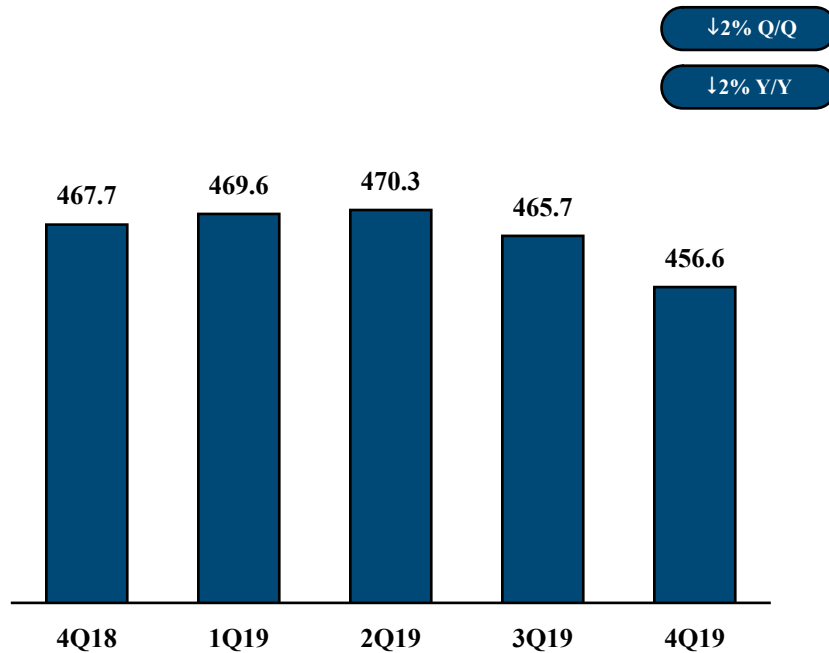
# Net Interest Income and Net Interest Margin



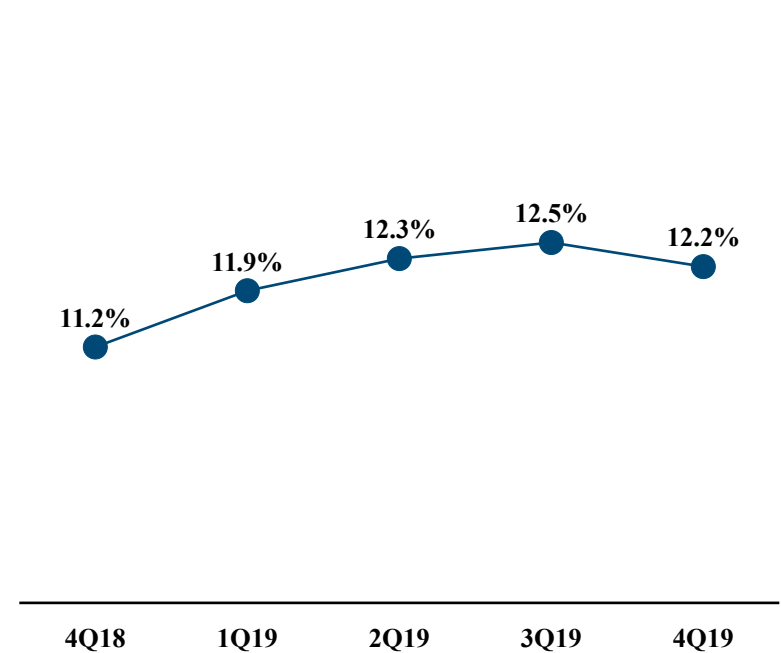
## Fourth Quarter 2019 Highlights

- Net interest margin increased 22 basis points quarter-over-quarter driven by the absence of the Q3 U.K. PPI Reserve build impact, changes in asset mix, and seasonal loan growth
- Net interest margin remained flat year-over-year as lower yields on interest-earning assets were largely offset by lower rates on interest-bearing liabilities

### Ending Common Shares Outstanding (M)



### Common Equity Tier 1 Capital Ratio

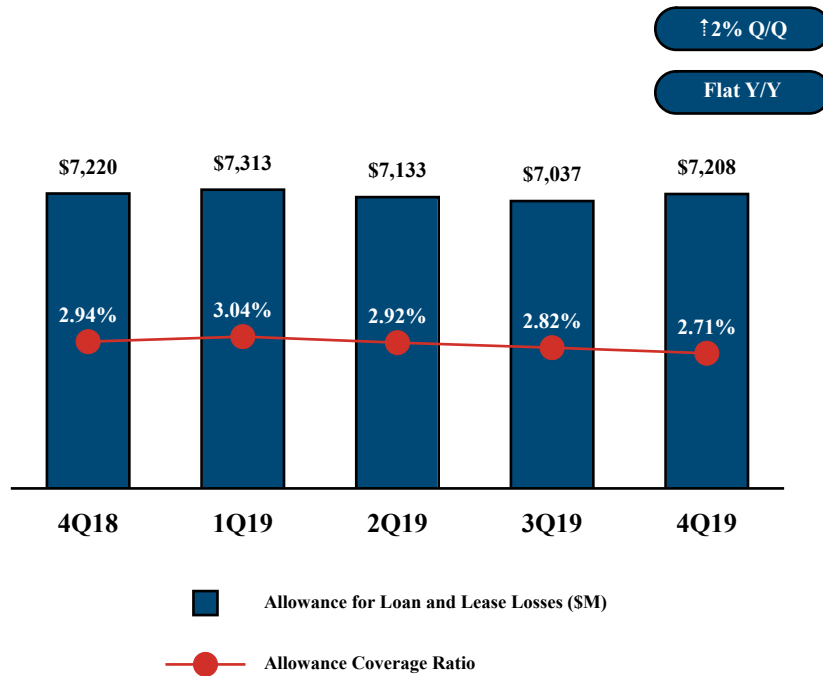


### Fourth Quarter 2019 Highlights

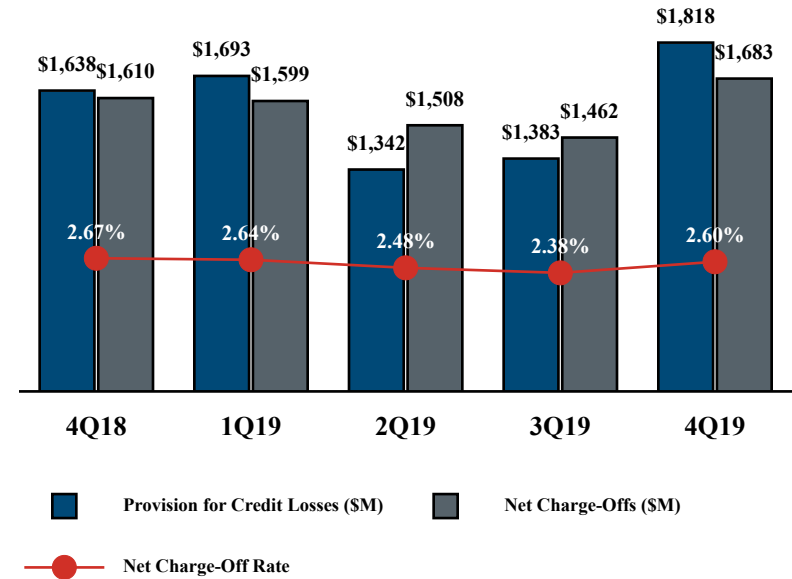
- Common equity Tier 1 capital ratio under Basel III Standardized Approach of 12.2% at December 31, 2019
- Repurchased 10 million common shares

Note: Regulatory capital metrics and capital ratios as of December 31, 2019 are preliminary and therefore subject to change.

## Allowance for Loan and Lease Losses



## Provision for Credit Losses and Net Charge-Offs



### Fourth Quarter 2019 Highlights

- Net charge-off rate of 2.60%
- Allowance for loan and lease losses increased by \$171 million to \$7.2 billion
- Allowance coverage ratio of 2.71%

# Financial Summary—Business Segment Results



<i>(Dollars in millions)</i>	Three Months Ended December 31, 2019				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income	\$ 3,794	\$ 1,662	\$ 494	\$ 116	\$ 6,066
Non-interest income (loss)	1,030	152	223	(44)	1,361
Total net revenue	4,824	1,814	717	72	7,427
Provision for credit losses	1,421	335	62	—	1,818
Non-interest expense	2,487	1,110	441	123	4,161
Income (loss) from continuing operations before income taxes	916	369	214	(51)	1,448
Income tax provision (benefit)	212	86	50	(78)	270
Income from continuing operations, net of tax	\$ 704	\$ 283	\$ 164	\$ 27	\$ 1,178



*(Dollars in millions, except as noted)*

				2019 Q4 vs.	
	2019 Q4	2019 Q3	2018 Q4	2019 Q3	2018 Q4
<b>Earnings:</b>					
Net interest income	\$ 3,794	\$ 3,546	\$ 3,617	7%	5%
Non-interest income	1,030	870	886	18	16
Total net revenue	4,824	4,416	4,503	9	7
Provision for credit losses	1,421	1,087	1,326	31	7
Non-interest expense	2,487	2,360	2,496	5	—
Pre-tax income	916	969	681	(5)	35
<b>Selected performance metrics:</b>					
Period-end loans held for investment	\$ 128,236	\$ 113,681	\$ 116,361	13%	10%
Average loans held for investment	122,085	112,371	112,349	9	9
Total net revenue margin	15.80%	15.72%	16.03%	8bps	(23)bps
Net charge-off rate	4.31	4.09	4.61	22	(30)
Purchase volume	\$ 116,631	\$ 108,034	\$ 105,696	8%	10%

## Fourth Quarter 2019 Highlights

- Ending loans up \$11.9 billion, or 10%, year-over-year; average loans up \$9.7 billion, or 9%, year-over-year
- Purchase volume up 10% year-over-year
- Revenue up \$321 million, or 7%, year-over-year
- Revenue margin of 15.80%
- Non-interest expense flat year-over-year
- Provision for credit losses up \$95 million, or 7%, year-over-year
- Net charge-off rate of 4.31%

# Domestic Card



				2019 Q4 vs.	
	2019 Q4	2019 Q3	2018 Q4	2019 Q3	2018 Q4
<i>(Dollars in millions, except as noted)</i>					
<b>Earnings:</b>					
Net interest income	\$ 3,473	\$ 3,299	\$ 3,309	5%	5%
Non-interest income	962	878	828	10	16
Total net revenue	4,435	4,177	4,137	6	7
Provision for credit losses	1,346	1,010	1,229	33	10
Non-interest expense	2,249	2,076	2,216	8	1
Pre-tax income	840	1,091	692	(23)	21
<b>Selected performance metrics:</b>					
Period-end loans held for investment	\$ 118,606	\$ 104,664	\$ 107,350	13%	10%
Average loans held for investment	112,965	103,426	103,391	9	9
Total net revenue margin	15.70%	16.15%	16.01%	(45)bps	(31)bps
Net charge-off rate	4.32	4.12	4.64	20	(32)
30+ day performing delinquency rate	3.93	3.71	4.04	22	(11)
Purchase volume	\$ 107,154	\$ 99,087	\$ 96,818	8%	11%

## Fourth Quarter 2019 Highlights

- Ending loans up \$11.3 billion, or 10%, year-over-year; average loans up \$9.6 billion, or 9%, year-over-year, including the acquired Walmart portfolio
- Purchase volume up 11% year-over-year
- Revenue up \$298 million, or 7%, year-over-year
- Revenue margin of 15.70%
- Non-interest expense up \$33 million, or 1%, year-over-year
- Provision for credit losses up \$117 million, or 10%, year-over-year
- Net charge-off rate of 4.32%

*(Dollars in millions, except as noted)*

	2019		2018	2019 Q4 vs.	
	2019 Q4	2019 Q3		2019 Q3	2018 Q4
<b>Earnings:</b>					
Net interest income	\$ 1,662	\$ 1,682	\$ 1,689	(1)%	(2)%
Non-interest income	152	165	159	(8)	(4)
Total net revenue	1,814	1,847	1,848	(2)	(2)
Provision for credit losses	335	203	303	65	11
Non-interest expense	1,110	985	1,085	13	2
Pre-tax income	369	659	460	(44)	(20)
<b>Selected performance metrics:</b>					
Period-end loans held for investment	\$ 63,065	\$ 62,015	\$ 59,205	2%	7%
Average loans held for investment	62,596	61,269	59,342	2	5
Auto loan originations	7,527	8,175	5,932	(8)	27
Period-end deposits	213,099	206,423	198,607	3	7
Average deposits	209,783	204,933	196,348	2	7
Average deposits interest rate	1.20%	1.31%	1.10%	(11)bps	10bps
Net charge-off rate	1.93	1.64	2.01	29	(8)

## Fourth Quarter 2019 Highlights

- Ending loans up \$3.9 billion, or 7%, year-over-year; average loans up \$3.3 billion, or 5%, year-over-year
- Ending deposits up \$14.5 billion, or 7%, year-over-year
- Revenue down \$34 million, or 2%, year-over-year
- Non-interest expense up \$25 million, or 2%, year-over-year
- Provision for credit losses up \$32 million, or 11%, year-over-year
- Net charge-off rate of 1.93%

	2019		2018	2019 Q4 vs.	
	Q4	Q3	Q4	2019 Q3	2018 Q4
<i>(Dollars in millions, except as noted)</i>					
<b>Earnings:</b>					
Net interest income	\$ 494	\$ 486	\$ 508	2%	(3)%
Non-interest income	223	221	159	1	40
Total net revenue <sup>(1)</sup>	717	707	667	1	7
Provision for credit losses	62	93	9	(33)	**
Non-interest expense	441	414	434	7	2
Pre-tax income	214	200	224	7	(4)
<b>Selected performance metrics:</b>					
Period-end loans held for investment	\$ 74,508	\$ 73,659	\$ 70,333	1%	6%
Average loans held for investment	74,189	72,507	69,680	2	6
Period-end deposits	32,134	30,923	29,480	4	9
Average deposits	32,034	30,693	30,680	4	4
Average deposits interest rate	1.10%	1.25%	0.95%	(15)bps	15bps
Net charge-off rate	0.35	0.33	0.10	2	25
<b>Risk category as a percentage of period-end loans held for investment:<sup>(2)</sup></b>					
Criticized performing	2.9%	2.8%	2.6%	10bps	30bps
Criticized nonperforming	0.6	0.6	0.4	—	20

## Fourth Quarter 2019 Highlights

- Ending loans up \$4.2 billion, or 6%, year-over-year; average loans up \$4.5 billion, or 6%, year-over-year
- Ending deposits up \$2.7 billion, or 9%, year-over-year; average deposits up \$1.4 billion, or 4%, year-over-year
- Revenue up \$50 million, or 7%, year-over-year
- Non-interest expense flat year-over-year
- Provision for credit losses up \$53 million year-over-year
- Net charge-off rate of 0.35%
- Criticized performing loan rate of 2.9% and criticized nonperforming loan rate of 0.6%

<sup>(1)</sup> In the first quarter of 2019, we made a change in how revenue is measured by revising the allocation of tax benefits on certain tax-advantaged investments. As such, prior period results have been recast to conform with the current period presentation, which reduced previously reported total net revenue by \$20 million in Q4 2018, with an offsetting increase in the Other category.

<sup>(2)</sup> Criticized exposures correspond to the “Special Mention,” “Substandard” and “Doubtful” asset categories defined by bank regulatory authorities.

# Appendix

# Non-GAAP Measures



	Three Months Ended			Nine Months Ended			Year Ended		
	December 31, 2019			September 30, 2019			December 31, 2019		
	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results
<i>(Dollars in millions, except per share data and as noted)</i>									
<b>Selected income statement data:</b>									
Net interest income	\$ 6,066	—	\$ 6,066	\$ 17,274	\$ 67	\$ 17,341	\$ 23,340	\$ 67	\$ 23,407
Non-interest income	1,361	—	1,361	3,892	74	3,966	5,253	74	5,327
Total net revenue	7,427	—	7,427	21,166	141	21,307	28,593	141	28,734
Provision for credit losses	1,818	\$ (84)	1,734	4,418	—	4,418	6,236	(84)	6,152
Non-interest expense	4,161	(64)	4,097	11,322	(284)	11,038	15,483	(348)	15,135
Income from continuing operations before income taxes	1,448	148	1,596	5,426	425	5,851	6,874	573	7,447
Income tax provision	270	35	305	1,071	46	1,117	1,341	81	1,422
Income from continuing operations, net of tax	1,178	113	1,291	4,355	379	4,734	5,533	492	6,025
Income (loss) from discontinued operations, net of tax	(2)	—	(2)	15	—	15	13	—	13
Net income	1,176	113	1,289	4,370	379	4,749	5,546	492	6,038
Dividends and undistributed earnings allocated to participating securities <sup>(2)</sup>	(7)	(1)	(8)	(34)	(3)	(37)	(41)	(3)	(44)
Preferred stock dividends	(97)	—	(97)	(185)	—	(185)	(282)	—	(282)
Issuance cost for redeemed preferred stock	(31)	—	(31)	—	—	—	(31)	—	(31)
Net income available to common stockholders	\$ 1,041	\$ 112	\$ 1,153	\$ 4,151	\$ 376	\$ 4,527	\$ 5,192	\$ 489	\$ 5,681
<b>Selected performance metrics:</b>									
Diluted EPS <sup>(2)</sup>	\$ 2.25	\$ 0.24	\$ 2.49	\$ 8.79	\$ 0.80	\$ 9.59	\$ 11.05	\$ 1.04	\$ 12.09
Efficiency ratio	56.03%	(87)bps	55.16%	53.49%	(169)bps	51.80%	54.15%	(148)bps	52.67%
Operating efficiency ratio	46.47	(87)	45.60	46.10	(164)	44.46	46.20	(144)	44.76

Note: We believe these selected non-GAAP measures help investors and users of our financial information understand the effect of the adjustments on our selected reported results. These adjusted results provide alternate measurements of our operating performance, both for the current period and trends across multiple periods. These non-GAAP measures should not be viewed as a substitute for our reported results determined in accordance with accounting principles generally accepted in the U.S. ("GAAP"), nor are they necessarily comparable to non-GAAP measures that may be presented by other companies.

<sup>(1)</sup> Adjustments in 2019 consist of:

	Three Months Ended	Nine Months Ended	Year Ended
	December 31, 2019	September 30, 2019	December 31, 2019
<i>(Dollars in millions)</i>			
Initial allowance build on acquired Walmart portfolio	\$ 84	\$ —	\$ 84
Walmart launch and related integration expenses	48	163	211
Cybersecurity Incident expenses, net of insurance	16	22	38
U.K. Payment Protection Insurance customer refund reserve build ("U.K. PPI Reserve")	—	212	212
Restructuring charges	—	28	28
Total	148	425	573
Income tax provision	35	46	81
Net income	\$ 113	\$ 379	\$ 492

<sup>(2)</sup> Dividends and undistributed earnings allocated to participating securities and earnings per share are computed independently for each period. Accordingly, the sum of each quarterly amount may not agree to the year-to-date total.

# Non-GAAP Measures

	Three Months Ended			Nine Months Ended			Year Ended		
	December 31, 2018			September 30, 2018			December 31, 2018		
	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results	Reported Results	Adj. <sup>(1)</sup>	Adjusted Results
<i>(Dollars in millions, except per share data and as noted)</i>									
<b>Selected income statement data:</b>									
Net interest income	\$ 5,820	\$ 6	\$ 5,826	\$ 17,055	\$ 26	\$ 17,081	\$ 22,875	\$ 32	\$ 22,907
Non-interest income	1,193	(64)	1,129	4,008	(514)	3,494	5,201	(578)	4,623
Total net revenue	7,013	(58)	6,955	21,063	(488)	20,575	28,076	(546)	27,530
Provision for credit losses	1,638	—	1,638	4,218	48	4,266	5,856	48	5,904
Non-interest expense	4,132	(34)	4,098	10,770	(248)	10,522	14,902	(282)	14,620
Income from continuing operations before income taxes	1,243	(24)	1,219	6,075	(288)	5,787	7,318	(312)	7,006
Income tax provision (benefit)	(21)	266	245	1,314	(121)	1,193	1,293	145	1,438
Income from continuing operations, net of tax	1,264	(290)	974	4,761	(167)	4,594	6,025	(457)	5,568
Income (loss) from discontinued operations, net of tax	(3)	—	(3)	(7)	—	(7)	(10)	—	(10)
Net income	1,261	(290)	971	4,754	(167)	4,587	6,015	(457)	5,558
Dividends and undistributed earnings allocated to participating securities <sup>(2)</sup>	(9)	2	(7)	(32)	1	(31)	(40)	3	(37)
Preferred stock dividends	(80)	—	(80)	(185)	—	(185)	(265)	—	(265)
Net income available to common stockholders	\$ 1,172	\$ (288)	\$ 884	\$ 4,537	\$ (166)	\$ 4,371	\$ 5,710	\$ (454)	\$ 5,256
<b>Selected performance metrics:</b>									
Diluted EPS <sup>(2)</sup>	\$ 2.48	\$ (0.61)	\$ 1.87	\$ 9.32	\$ (0.34)	\$ 8.98	\$ 11.82	\$ (0.94)	\$ 10.88
Efficiency ratio	58.92%	—	58.92%	51.13%	1bps	51.14%	53.08%	3bps	53.11%
Operating efficiency ratio	47.07	(10)bps	46.97	44.76	(15)	44.61	45.33	(12)	45.21

Note: We believe these selected non-GAAP measures help investors and users of our financial information understand the effect of the adjustments on our selected reported results. These adjusted results provide alternate measurements of our operating performance, both for the current period and trends across multiple periods. These non-GAAP measures should not be viewed as a substitute for our reported results determined in accordance with accounting principles generally accepted in the U.S. (“GAAP”), nor are they necessarily comparable to non-GAAP measures that may be presented by other companies.

<sup>(1)</sup> Adjustments in 2018 consist of:

	Three Months Ended	Nine Months Ended	Year Ended
	December 31, 2018	September 30, 2018	December 31, 2018
<i>(Dollars in millions)</i>			
Net gains on the sales of exited businesses	\$ (74)	\$ (541)	\$ (615)
Benefit as a result of tax methodology change on rewards costs	(284)	—	(284)
Legal reserve build	—	170	170
U.K. Payment Protection Insurance customer refund reserve (“U.K. PPI Reserve”)	50	49	99
Restructuring charges	—	34	34
Total	(308)	(288)	(596)
Income tax provision	18	121	139
Net income	\$ (290)	\$ (167)	\$ (457)

<sup>(2)</sup> Dividends and undistributed earnings allocated to participating securities and earnings per share are computed independently for each period. Accordingly, the sum of each quarterly amount may not agree to the year-to-date total.