



## **Basel Pillar 3 Disclosures**

September 30, 2015

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## INTRODUCTION

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### Overview

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”) offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of September 30, 2015, our principal subsidiaries included:

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

The Company is hereafter collectively referred to as “we,” “us” or “our.” COBNA and CONA are collectively referred to as the “Banks.” Certain business terms used in this document are defined in the Glossary and Acronyms of this Report.

We also offer products outside of the United States (“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.

### Regulatory Framework

Bank holding companies (“BHC”) and national banks are subject to capital adequacy standards adopted by the Board of Governors of the Federal Reserve System (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 minimum capital requirements.

In July 2013, the Federal Banking Agencies finalized new capital rules that implement 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 (“CET1”) capital requirement and setting higher minimum capital ratio requirements. We refer to the amended Basel I framework as the “Basel III Standardized Approach,” and the amended Advanced Approaches framework as the “Basel III Advanced Approaches.”

At the end of 2012, we met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, we have undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. Certain provisions of the Final Basel III Capital Rules began to take effect on January 1, 2014 for Advanced Approaches banking organizations, including us. We entered parallel run under Advanced Approaches on January 1, 2015, during which we will calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, while continuing 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 period for which we would use the Basel III Advanced Approaches framework in calculating our 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, even after we exit parallel run, we will continue to calculate regulatory capital and risk-weighted assets under the Basel III Standardized Approach.

The Final Basel III Capital Rules include requirements for quarterly public disclosures of qualitative and quantitative information regarding capital, capital adequacy, and risk. These disclosures fall under the 3<sup>rd</sup> Pillar of the Basel III Framework (the “Pillar 3 Disclosures”), and are intended to allow market participants to assess key information about a bank’s risk profile and its associated

level of capital. For additional information on the Regulatory Framework that governs us, see “Part I—Item 1. Business—Supervision and Regulation” and “MD&A—Capital Management” of our 2014 Annual Report on Form 10-K for the year ended December 31, 2014 (the “2014 Form 10-K”).

### **Basis of Preparation**

This document contains Pillar 3 Disclosures for the period ended September 30, 2015, and has been prepared in accordance with the regulatory guidance prescribed by the Basel III Standardized Approach (“this Report”). The basis of consolidation that we use for regulatory reporting is consistent with the basis that we use for reporting under generally accepted accounting principles in the U.S. (“U.S. GAAP”) as established by the Financial Accounting Standards Board. The regulatory instructions however, do not in all cases follow U.S. GAAP. As a result of these differences, information in this Report may not be directly comparable to our disclosures in our 2014 Form 10-K or our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2015 (the “Q3 2015 Form 10-Q”).

This Report contains information that is based on our interpretations, expectations and assumptions under the Final Basel III Capital Rules, as well as interpretations provided by our regulators and is subject to change based on changes to regulations and interpretations. Our most recent Pillar 3 Disclosures report is available on our website ([www.capitalone.com](http://www.capitalone.com)) under “About Us/Investors” and it contains references to, and should be read in conjunction with our 2014 Form 10-K and our Q3 2015 Form 10-Q (also available on our website).

### **Forward-Looking Statements**

Certain statements in this disclosure are forward-looking statements, which involve a number of risks and uncertainties. We caution readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information due to a number of factors, including those listed from time to time in reports that we file with the Securities and Exchange Commission, including, but not limited to the 2014 Form 10-K.

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## CAPITAL

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### Capital Management

The prudent management of capital is one of our highest priorities. Capital must be sufficient to support the business plans and risk profiles of our business activities and to absorb adverse shocks (both systemic and idiosyncratic). Capital is central to our continued operations and ability to lend to creditworthy businesses and consumers amidst normal and stressed environments.

The level and composition of our capital are determined by multiple factors, including our consolidated regulatory capital requirements and our Internal Capital Adequacy Assessment Process (“ICAAP”). ICAAP includes internal stress testing and economic capital and is a forward-looking assessment of our projected capital needs and resources, incorporating earnings, balance sheet and risk forecasts under baseline and adverse economic and market conditions. 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, potential accounting changes and assessments of potential future losses due to adverse changes in our business and market environments.

Our capital adequacy framework describes how we plan to ensure that we maintain the appropriate level and composition of our capital and remain resilient to potential uncertainties, consistent with the risk appetite and capital targets established by our Board of Directors. It includes clearly defined roles and responsibilities, a formal governance structure, and processes related to the overall implementation and oversight of our capital policy. Governance structures are designed to provide sound internal controls and to facilitate the Board of Directors' oversight and senior management's execution of the capital policy.

The Federal Reserve requires BHCs to submit a comprehensive capital plan and requests for capital actions on an annual basis, consistent with their Comprehensive Capital Analysis and Review (“CCAR”) requirements. The Federal Reserve uses the CCAR process to ensure that large BHCs have adequate capital and robust processes for managing their capital resources.

For additional information on capital management, see “MD&A—Capital Management” of our Q3 2015 Form 10-Q.

### Regulatory Capital and Capital Adequacy

Our regulatory capital structure consists of the following capital instruments:

#### *Common Stock*

Our common stock has par value of \$0.01 per share. As of September 30, 2015 we had 535 million shares outstanding. For more information, see “Part I—Item 1. Financial Statements—Consolidated Balance Sheets” of our Q3 2015 Form 10-Q.

#### *Preferred Stock*

For information on our non-cumulative perpetual preferred stock, see “Note 10—Stockholders' Equity—Table 10.1: Preferred Stock Issued and Outstanding” of our Q3 2015 Form 10-Q.

#### *Unsecured Subordinated Debt*

For information on our unsecured subordinated debt, see “Note 8—Deposits and Borrowings—Table 8.1: Components of Deposits, Short-Term Borrowings and Long-Term Debt” and “MD&A—Liquidity Risk Profile—Table 32: Contractual Maturity Profile of Outstanding Debt” of our Q3 2015 Form 10-Q.

The Final Basel III Capital Rules define three categories of risk-based capital (CET1 capital, Tier 1 capital and Tier 2 capital) based on the capital elements' degree of permanency and capacity to absorb losses. CET1 capital primarily includes qualifying common shareholders' equity, retained earnings and accumulated other comprehensive income (“AOCI”) less certain deductions for goodwill, intangible assets and certain deferred tax assets. Tier 1 capital consists of CET1 capital in addition to capital instruments that qualify as Tier 1 capital such as non-cumulative perpetual preferred stock. Tier 2 capital includes qualifying allowance for credit losses and subordinated debt. The calculation of our Basel III Standardized Approach CET1 capital under the Final Basel III Capital Rules includes adjustments and deductions subject to transition provisions. The inclusion of AOCI and the adjustments related to intangibles are phased-in at 40% for 2015, 60% for 2016, 80% for 2017 and 100% for 2018.

Table 1 summarizes our regulatory capital structure for the period ended September 30, 2015.

**Table 1: Regulatory Capital Under Basel III Standardized Approach**

<i>(Dollars in millions)</i>	<b>September 30, 2015</b>
Common equity excluding AOCI	\$ 44,533
Adjustments:	
AOCI <sup>(1)(2)</sup>	75
Goodwill <sup>(3)</sup>	(13,805)
Intangible assets <sup>(2)(3)</sup>	(374)
Other	(320)
Common equity Tier 1 capital	30,109
Tier 1 capital instruments <sup>(4)</sup>	3,293
Additional Tier 1 capital adjustments	—
Tier 1 capital	33,402
Tier 2 capital instruments <sup>(4)</sup>	1,155
Qualifying allowance for loan and lease losses	3,137
Additional Tier 2 capital adjustments	—
Tier 2 capital	4,292
Total risk-based capital <sup>(5)</sup>	\$ 37,694

<sup>(1)</sup> Amounts presented are net of tax.

<sup>(2)</sup> Amounts based on transition provision for regulatory capital deductions and adjustments of 40% for 2015.

<sup>(3)</sup> Includes impact of related deferred taxes.

<sup>(4)</sup> Includes related surplus.

<sup>(5)</sup> Total risk-based capital equals the sum of Tier 1 capital and Tier 2 capital.

## Risk-Weighted Asset (“RWA”) Measurement

The Basel III Standardized Approach RWA is calculated based on the Final Basel III Capital Rules. Table 2 provides a distribution of our RWA by exposure categories prescribed by applicable regulations for the period indicated. For a distribution of our RWA by balance sheet categories, see Schedule HC-R of our Consolidated Financial Statements for Bank Holding Companies (“FR Y-9C”) for the period ended September 30, 2015.

**Table 2: RWA by Basel Exposure Categories under Basel III Standardized Approach**

<i>(Dollars in millions)</i>	<b>September 30, 2015</b>
<b>RWA by Basel exposure categories:</b>	
Exposures to sovereign entities <sup>(1)</sup>	\$ —
Exposures to depository institutions, foreign banks, and credit unions	357
Exposures to public-sector entities	7,072
Corporate exposures <sup>(2)</sup>	49,382
Residential mortgage exposures	17,452
Statutory multifamily mortgage exposures	2,470
High-volatility commercial real estate loans	2,551
Delinquent and past due loans	3,031
Other loans <sup>(2)(3)</sup>	124,442
Securitization exposures	12,594
Equity exposures	4,143
Other assets	13,056
<b>RWA for balance sheet asset categories (excluding derivatives)</b>	<b>236,550</b>
Off-balance sheet items	13,560
Over-the-counter derivatives	821
Centrally cleared derivatives	20
<b>Total RWA before excess allowance for loan and lease losses</b>	<b>250,951</b>
<b>Excess allowance for loan and lease losses</b>	<b>(1,870)</b>
<b>Total RWA</b>	<b>\$ 249,081</b>

<sup>(1)</sup> Includes exposure to securities issued and guaranteed by U.S. government and U.S. government agencies and cash balances due from Federal Reserve Banks that are risk-weighted at 0% under Basel III Standardized Approach.

<sup>(2)</sup> Excludes 90+ day delinquent and non-accrual loans which are reported separately as delinquent and past due loans.

<sup>(3)</sup> Includes credit card, auto and other loans that are not classified in any other exposure categories in the above table.

## Capital Ratios under Basel III Standardized Approach

The table below provides regulatory capital ratios under the Basel III Standardized Approach subject to transition provisions, the regulatory minimum capital adequacy ratios and the PCA well-capitalized targets as of September 30, 2015.

As of September 30, 2015, we exceeded the minimum capital requirements established by the Final Basel III Capital Rules and the Federal Banking Agencies, and each of the Banks exceeded the minimum regulatory requirements and were “well-capitalized” under PCA requirements.

**Table 3: Capital Ratios<sup>(1)</sup>**

	September 30, 2015		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
<b>Capital One Financial Corp:</b>			
Common equity Tier 1 capital <sup>(2)</sup>	12.1%	4.5%	N/A
Tier 1 risk-based capital <sup>(3)</sup>	13.4	6.0	6.0%
Total risk-based capital <sup>(4)</sup>	15.1	8.0	10.0
Tier 1 leverage <sup>(5)</sup>	11.1	4.0	N/A
Supplementary leverage <sup>(6)</sup>	9.6	N/A	N/A
<b>Capital One Bank (USA), N.A.:</b>			
Common equity Tier 1 capital <sup>(2)</sup>	12.5%	4.5%	6.5%
Tier 1 risk-based capital <sup>(3)</sup>	12.5	6.0	8.0
Total risk-based capital <sup>(4)</sup>	15.5	8.0	10.0
Tier 1 leverage <sup>(5)</sup>	10.8	4.0	5.0
Supplementary leverage <sup>(6)</sup>	8.8	N/A	N/A
<b>Capital One, N.A.:</b>			
Common equity Tier 1 capital <sup>(2)</sup>	12.9%	4.5%	6.5%
Tier 1 risk-based capital <sup>(3)</sup>	12.9	6.0	8.0
Total risk-based capital <sup>(4)</sup>	14.0	8.0	10.0
Tier 1 leverage <sup>(5)</sup>	9.1	4.0	5.0
Supplementary leverage <sup>(6)</sup>	8.2	N/A	N/A

<sup>(1)</sup> Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions.

<sup>(2)</sup> Common equity Tier 1 capital ratio is a regulatory capital measure under the Final Basel III Capital Rules calculated based on CET1 capital divided by risk-weighted assets.

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

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

<sup>(5)</sup> Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by average assets, after certain adjustments.

<sup>(6)</sup> 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.

Our estimated CET1 capital ratio under the fully phased-in Basel III Standardized Approach was 11.8% as of September 30, 2015. For a further discussion of the capital ratios and capital adequacy guidelines, see “MD&A—Capital Management” section of our Q3 2015 Form 10-Q.

Under the Final Basel III Capital Rules, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be the greater of the Basel III Standardized Approach and the Basel III Advanced Approaches. See “Part I—Item 1. Business—Supervision and Regulation” in our 2014 Form 10-K for additional information. Once we exit parallel run, based on clarification of the Final Basel III Capital Rules from our regulators, any difference between the Final Basel III Capital Rules definitions of expected credit losses and our eligible credit reserves will be deducted from our Basel III Standardized



Approach numerator, subject to transition provisions. Inclusive of this impact, based on current rules and our business mix, we estimate that our Basel III Advanced Approaches ratios will be lower than our Standardized Approach ratios.

### ***Capital Buffer***

The Final Basel III Capital Rules require banks to maintain a capital conservation buffer of CET1 capital of 2.5 percent above the regulatory minimum ratio and an incremental countercyclical capital buffer of up to 2.5 percent of CET1 to be set at the discretion of the U.S. banking regulators during periods of economic stress (currently 0 percent as of September 30, 2015). The capital conservation buffer is required to be phased-in over a transition period of four years commencing on January 1, 2016. A CET1 capital ratio below the minimum capital ratios and the combined capital conservation buffer and the countercyclical buffer (when applicable) might restrict a bank's ability to distribute capital and make discretionary bonus payments.

Additionally, banks designated as Globally Systemically Important Banks (“GSIBs”) are subject to an additional regulatory capital surcharge above the conservation and countercyclical buffers established by the Final Basel III Capital Rules. We are currently not designated as a GSIB and therefore not subject to this surcharge.

## Supplementary Leverage Ratio

The Final Basel III Capital Rules introduced a new supplementary leverage ratio (“SLR”) for all Advanced Approaches banking organizations. The SLR compares Tier 1 capital to total leverage exposure, which includes all on-balance sheet assets and certain off-balance sheet assets, including derivatives and unused commitments. The new SLR minimum requirement of 3 percent becomes effective on January 1, 2018. Beginning in the first quarter of 2015, as an Advanced Approaches banking organization, we are required to calculate and publicly disclose our SLR.

Table 4 provides the SLR, Tier 1 capital and total leverage exposure under the Basel III Standardized Approach as of September 30, 2015.

**Table 4: Supplementary Leverage Ratio**

<i>(Dollars in millions)</i>	<b>September 30, 2015</b>
<b>Summary Comparison of Accounting Assets and Total Leverage Exposure</b>	
Total average consolidated assets	\$ 314,349
Adjustment for derivative exposures	1,899
Adjustment for off-balance sheet exposures	46,052
Amounts deducted from Tier 1 capital	(14,179)
Total leverage exposure <sup>(1)</sup>	<u>\$ 348,121</u>
<b>Supplementary Leverage Ratio</b>	
Average on-balance sheet assets <sup>(2)</sup>	\$ 313,148
Amounts deducted from Tier 1 capital	(14,179)
Total on-balance sheet exposures	298,969
Replacement cost for derivative exposures <sup>(3)</sup>	1,201
Potential future exposure for derivative exposures	848
Notional principal amount of sold credit protection	1,051
Total derivative exposures	3,100
Average off-balance sheet exposures at gross notional amounts	335,417
Adjustments for conversion to credit equivalent amounts	(289,365)
Total other off-balance sheet exposures	46,052
Total leverage exposure <sup>(1)</sup>	<u>\$ 348,121</u>
Tier 1 capital under the Basel III Standardized Approach	\$ 33,402
Supplementary leverage ratio	9.6%

<sup>(1)</sup> Reflects on- and off-balance sheet amounts based on the Final Basel III Capital Rules for supplementary leverage ratio.

<sup>(2)</sup> Excludes on-balance sheet assets for derivative exposures and includes cash collateral received in derivative transactions.

<sup>(3)</sup> Net of cash variation margin.

The supplementary leverage ratio, Tier 1 capital and total leverage exposure for COBNA was 8.8%, \$10.2 billion and \$115.4 billion, respectively, and for CONA was 8.2%, \$22.2 billion and \$270.0 billion, respectively, as of September 30, 2015.

### ***Funds and Capital Transfer Restrictions***

Regulatory restrictions exist that limit the ability of the Banks to transfer funds to the Company. As of September 30, 2015, funds available for dividend payments from COBNA and CONA were \$2.4 billion and \$164 million, respectively. Certain provisions in our borrowing agreements or the borrowing agreements of our subsidiaries may limit our subsidiaries' ability to pay dividends to us or our ability to pay dividends to our stockholders. For additional information on regulatory restrictions on transfer of funds or capital distributions between the Banks and the Company, see "MD&A—Capital Management—Dividend Policy and Stock Purchases" of our Q3 2015 Form 10-Q.

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## RISK MANAGEMENT

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### Risk Framework

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

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

Our risk framework consists of the following eight key elements:

- Establish Governance Processes, Accountabilities and Risk Appetites
- Identify and Assess Risks and Ownership
- Develop and Operate Controls, Monitoring and Mitigation Plans
- Test and Detect Control Gaps and Perform Corrective Action
- Escalate Key Risks and Gaps to Executive Management and, when Appropriate, the Board of Directors
- Calculate and Allocate Capital in Alignment with Risk Management and Measurement Processes (including Stress Testing)
- Support with the Right Culture, Talent and Skills
- Enable with the Right Data, Infrastructure and Programs

We apply our Risk Framework to protect the Company from the eight major categories of risk that we are exposed to through our business activities. Our eight major categories of risk are compliance risk, credit risk, legal risk, liquidity risk, market risk, operational risk, reputation risk and strategic risk.

### Risk Appetite

Risk appetite refers to the level of risk our business is willing to take in pursuit of our corporate business objectives. The Board of Directors approves our risk appetite including specific risk limits where applicable. While first line executives manage risk on a day-to-day basis, the Chief Risk Officer provides effective challenge and independent oversight to ensure that risks are within the appetite and specific limits established by the Board of Directors. The Chief Risk Officer reports to the Board of Directors regularly on the nature and level of risk across all eight risk categories. In addition to his broader management responsibilities, our Chief Executive Officer is responsible for developing the strategy and mission of our organization, determining and leading our culture, and reviewing and providing input into our risk appetite.

We have a defined Enterprise Risk Appetite Statement, which governs and embraces the overall tenets of our risk management culture. The Enterprise Risk Appetite Statement sets the tone for how we approach risk, and supports our mission, values and strategic imperatives.

We have a defined risk appetite for each of our eight risk categories that is approved by our Board of Directors. Stated risk appetites define the parameters for taking and accepting risks and are used by management and our Board of Directors to make business decisions. We communicate risk appetite statements, limits and thresholds to the appropriate levels in the organization and monitor adherence. For further information on our risk framework and structure and organization of the Risk Management function, see “MD&A—Risk Management” of our 2014 Form 10-K and our Q3 2015 Form 10-Q.

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## CREDIT RISK

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### Credit Risk Management

Credit risk is the risk of loss from an obligor's failure to meet the terms of a contract or otherwise failure to perform as agreed. We recognize that we are exposed to cyclical changes in credit quality. Consequently, we try to ensure our credit portfolio is resilient to economic downturns. Our most important tool in this endeavor is sound underwriting. In unsecured consumer loan underwriting, we generally assume that loans will be subject to an environment in which losses are higher than those prevailing at the time of underwriting. In commercial underwriting, we generally require strong cash flow, collateral and covenants and guarantees. In addition to sound underwriting, we continually monitor our portfolio and take steps to collect or work out distressed loans. For further information on our loan underwriting standards, see "MD&A—Credit Risk Profile—Primary Loan Products" of our 2014 Form 10-K.

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

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

### 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. Our primary loan products include credit card loans, auto loans, home loans and commercial loans which we generate through our Credit Card, Consumer Banking, and Commercial Banking businesses. For a more detailed description of the composition of our loan portfolio, including an industry classification of our commercial loans and for information on our unfunded lending commitments related to our loan portfolio, see "MD&A—Credit Risk Profile" and "Note 4—Loans" of our Q3 2015 Form 10-Q.

We market our products primarily in the U.S., as well as in the U.K. and Canada, and actively manage our risk from concentration within certain geographic areas. For a detailed description of the geographic distribution of our loan portfolio, see "Note 4—Loans" of our Q3 2015 Form 10-Q. For our loan maturity classification, see "MD&A—Credit Risk Profile" of our 2014 Form 10-K and our Q3 2015 Form 10-Q.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, short-term advances on syndication activity, certain operational cash balances in other financial institutions, foreign exchange transactions, customer overdrafts, and cash deposits with banking institutions. In executing our investment activities, we comply with Board of Directors approved limits and guidelines that reflect our risk appetite and strategic goals. Our investment portfolio is concentrated in securities that generally have high credit ratings and low exposure to credit risk, such as securities issued and guaranteed by U.S. Treasury and U.S. government-sponsored enterprises or agencies. Our investment

portfolio also includes non-agency residential mortgage-backed securities (“RMBS”); commercial mortgage-backed securities (“CMBS”); and other asset-backed securities (“ABS”) which are considered securitization exposures under the Final Basel III Capital Rules. See “Note 3—Investment Securities” of our Q3 2015 Form 10-Q for a distribution of our portfolio by counterparty type and for a maturity distribution of our investment securities. For additional information about the credit risk related to our investment portfolio, see “MD&A—Consolidated Balance Sheet Analysis—Investment Securities” of our Q3 2015 Form 10-Q.

In the normal course of our business, we enter into certain over-the-counter (“OTC”) derivative transactions that give rise to counterparty credit risk. For information on credit risk related to our derivative transactions, see “Note 9—Derivative Instruments and Hedging Activities” of our Q3 2015 Form 10-Q. For information on risk management practices and policies related to our derivative transactions, see “Counterparty Credit Risk” discussion in this Report.

For the average balances of our credit risk exposures, see “MD&A—Consolidated Results of Operations—Table 3: Average Balances, Net Interest Income and Net Interest Margin” of our Q3 2015 Form 10-Q. For a comprehensive view of our credit risk exposure by balance sheet categories, see Schedule HC-R of our FR Y-9C for the period ended September 30, 2015.

### **Credit Risk Measurement**

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

For a summary of accounting policies related to our credit quality indicators, such as delinquent and nonperforming loans, net charge-offs and troubled debt restructuring for each of our loan categories, see “Note 1—Summary of Significant Accounting Policies—Loans” of our 2014 Form 10-K. For a summary of methodologies and policies that we use to determine our allowance for loan and lease losses for our loan portfolio segments, see “Note 1—Summary of Significant Accounting Policies—Allowance for Loan and Lease Losses” of our 2014 Form 10-K.

For additional information about key concentrations and credit performance metrics, see references to our Q3 2015 Form 10-Q and 2014 Form 10-K below.

#### ***Delinquent, Non-Performing and Impaired Loans***

For a quantitative summary of our delinquent, nonperforming and impaired loans, including geographic concentration, see “Note 4—Loans” and “MD&A—Credit Risk Profile—Credit Risk Measurement” of our Q3 2015 Form 10-Q.

#### ***Allowance for Loan and Lease Losses***

We maintain an allowance for loan and lease losses that 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. We also separately reserve for binding unfunded lending commitments, letters of credit and financial guarantees. For a summary of changes in our allowance for loan and lease losses and components of the allowance for loan and lease losses by portfolio and by impairment methodology, see “Note 5—Allowance for Loan and Lease Losses” and “MD&A—Credit Risk Profile—Allowance for Loan and Lease Losses” of our Q3 2015 Form 10-Q.

#### ***Asset Impairment***

We review our investment securities for impairment on a regular basis in accordance with applicable impairment accounting guidance. For additional information, see “MD&A—Critical Accounting Policies and Estimates—Asset Impairment—Investment Securities” of our 2014 Form 10-K. For a quantitative summary of impairments on our investment securities, see “Note 3—Investment Securities—Other-Than-Temporary Impairment” of our Q3 2015 Form 10-Q.

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## COUNTERPARTY CREDIT RISK

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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.

### **Counterparty Credit Risk Management**

We seek to proactively manage counterparty credit risk by selecting a well-diversified set of counterparties with low risk of default. Our selection process is consistent with our risk management philosophy and objectives.

The objectives of our counterparty credit risk management and monitoring activities are intended to:

- Scale exposures to the financial capacity and credit quality of counterparties and counterparty relationships in line with senior management's risk appetite and internal credit assessments
- Diversify credit risk concentrations so that unexpected failure scenarios for any single counterparty, or group of counterparties, do not result in an unacceptable amount of counterparty credit losses
- Provide for consistency with industry best practices and regulatory expectations
- Protect our capital and reputation through prudent and appropriate counterparty credit processes and controls
- Provide for periodic reviews of practices, policies and methodologies

We establish exposure limits for each counterparty relationship based on our risk appetite. Credit limits are commensurate with the financial capacity and credit quality of the counterparty by reference to our internal credit rating, the capital position of the counterparty and product specific factors.

### ***Derivatives Master Netting Agreements***

To mitigate the risk of counterparty default, we enter into legally enforceable bilateral master netting agreements with certain derivative counterparties. 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 instruments exceed established thresholds. Derivative instruments that are centrally cleared also reduce our credit exposure to bilateral counterparties.

### ***Collateral for Derivatives***

We also maintain collateral agreements with certain derivative counterparties. For bilateral trades, these agreements typically require both parties to maintain collateral in the event the fair values of derivative financial instruments exceed established thresholds. For centrally cleared derivatives, we are subject to initial margin posting and variation margin exchange with the central clearing house. Acceptable types of collateral are typically in the form of cash or high quality liquid securities.

The pledging and exchange of collateral is dependent upon the value of the secured exposure as well as the value of the pledged collateral. When valuing collateral, an estimate of the variation in price and liquidity over time is subtracted in the form of a "haircut" to discount the value of the collateral pledged.

### ***Counterparty Credit Risk Valuation Adjustment***

We record counterparty credit risk valuation adjustments on our derivative assets to properly reflect the credit quality of the counterparty. We consider collateral pledged 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 derivative instruments, collateral and creditworthiness of the counterparty.



### **Creditworthiness Deterioration**

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.

For information on policies that we use to manage our derivatives portfolio, see “Note 1—Summary of Significant Accounting Policies—Derivative Instruments and Hedging Activities” of our 2014 Form 10-K. For the financial impact of credit risk-related contingencies in our derivative contracts and the policies and processes that we use for collateral valuation and management, see “Note 9—Derivative Instruments and Hedging Activities—Derivative Counterparty Credit Risk” of our Q3 2015 Form 10-Q.

### **Counterparty Credit Risk Exposure**

For a summary of our counterparty credit risk exposure, including the impact of netting and collateral as of September 30, 2015, see “Note 9—Derivative Instruments and Hedging Activities—Table 9.2: Offsetting of Financial Assets and Financial Liabilities” of our Q3 2015 Form 10-Q.

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## CREDIT RISK MITIGATION

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Credit risk mitigation is an essential component of our credit risk management. We use various risk mitigation techniques designed to reduce risk and minimize our losses in the event an obligor defaults. The most common mitigants that we use in our operations include collateral in the form of cash, investment grade securities, residential and commercial property, and other financial agreements such as loss sharing agreements, netting and third-party guarantees. The quality standards outlined in our underwriting policies remain the foundation for credit risk management and credit risk mitigation techniques supplement them by providing an alternative source of repayment.

In our secured loan portfolio, we have recourse to pledged collateral such as physical property or other financial assets that enable us to recover a portion of the contractual payment due in the event of a default. Assets that qualify as collateral include cash, securities, personal property such as vehicles, and residential and commercial real estate property. We also have certain credit card partnership arrangements that contain loss sharing provisions with our partners. The loss severity and the amount of credit reserves that are attributable to these portfolios are reduced based on the loss sharing amount due from the partners. To a limited extent we also utilize financial instruments such as guarantees in our commercial portfolio to diversify our exposure to an obligor by transferring the associated credit risk to a third party.

Our primary risk mitigation techniques for our derivatives portfolio are master netting agreements and collateral agreements as discussed in “Counterparty Credit Risk Management” in this Report.

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## SECURITIZATION

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The securitization framework of the Final Basel III Capital Rules applies to on- and off-balance sheet credit exposures that arise from a securitization transaction, or exposures that directly or indirectly reference a securitization exposure. Under the Final Basel III Capital Rules, a securitization is a transaction in which credit risk of one or more underlying exposures (substantially all of which need to be financial in nature) has been transferred to one or more third parties, where the credit risk associated with these underlying exposures has been separated into at least two tranches reflecting different levels of seniority and performance of the securitization transaction depends on the performance of these underlying exposures. We have exposure to securitizations that we have purchased, that we have originated, and that result from the tranching of credit risk in some of our commercial lending activities as discussed in more detail below.

Note that the scope of securitizations for regulatory capital purposes is not directly comparable to the securitization information reported under U.S. GAAP in “Note 6—Variable Interest Entities and Securitizations” of our Q3 2015 Form 10-Q. For example, as an originator, we have primarily securitized credit card loans, which have provided a source of funding for us and enabled us to transfer a certain portion of the economic risk of these loans. We are deemed to be the primary beneficiary of all of our non-mortgage securitization trusts under the applicable consolidation accounting guidance. Accordingly, all of these trusts have been consolidated in our financial statements, and we present the carrying amount of assets and liabilities on our consolidated balance sheets. Therefore, these non-mortgage securitization trusts are not considered a securitization for regulatory capital purposes.

Securitization exposures give rise to multiple types of risks including, but not limited to, credit, liquidity and interest rate risk. Our approach to managing risk from securitization exposures is consistent with our overall risk management framework. The key processes of the framework ensure that the performance of our securitization exposures is monitored, conforms to our risk appetite and remains in compliance with the regulatory due diligence requirements.

### **Roles and Objectives**

We are engaged in securitization activities as an investor, an originator and a servicer.

Our investment portfolio includes securitizations originated by third parties. These investments represent a substantial majority of our securitization exposure and include non-agency RMBS, CMBS and other ABS. These securities contribute to the achievement of overall portfolio strategies and objectives with regard to liquidity, interest rate risk, credit risk, return targets and other objectives, as appropriate. For additional information about our investments in RMBS, CMBS and ABS, see “Note 3—Investment Securities” of our Q3 2015 Form 10-Q.

We acquired three businesses that originated residential mortgage loans and sold those loans to various purchasers, including purchasers who created securitization trusts. We do not originate new loans through these acquired businesses, but remain exposed to their previously originated and securitized residential mortgages. We do not consolidate the trusts used for mortgage securitizations under U.S. GAAP. Our residential mortgage exposure from these originated securitizations primarily consists of our retained interests in option-ARM mortgage loans securitized into mortgage-backed securities with an outstanding balance of \$1.8 billion as of September 30, 2015 and our residual interest in manufactured housing securitizations consisting of the right to receive any remaining funds from letters of credit previously funded to cover losses with an unpaid principal balance of \$817 million as of September 30, 2015. We continue to service some of our originated securitizations, and the servicer cash advances we are required to make as part of our servicing agreements are also considered a securitization exposure for regulatory capital purposes.

As of September 30, 2015 our securitization exposures include commercial loans to special purpose entities (“SPE”s) secured by financial collateral with an outstanding balance of \$1.6 billion and total exposure of \$2.1 billion. For additional information about our involvement in securitization transactions as an originator and servicer, see “Note 6—Variable Interest Entities and Securitizations” of our Q3 2015 Form 10-Q.

For information on our accounting policies related to securitization exposure, see “MD&A—Critical Accounting Policies and Estimates—Investment Securities” and “Note 1—Summary of Significant Accounting Policies—Investment Securities and Securitization of Loans” of our 2014 Form 10-K.

Table 5 summarizes our regulatory capital securitization exposure by type.

**Table 5: Securitization Exposure by Underlying Exposure Type**

<i>(Dollars in millions)</i>	<b>September 30, 2015</b>
Residential mortgage	\$ 3,322
Commercial mortgage	1,778
Asset-backed	1,485
Loans	2,069
Other <sup>(1)</sup>	76
Total exposure	<u>\$ 8,730</u>

<sup>(1)</sup> Includes exposures from originated manufactured housing securitizations.

### Regulatory Capital Approach

We use the Simplified Supervisory Formula Approach (“SSFA”) under the Basel III Standardized Approach to assign risk weights to our securitization exposures. This approach is based on a formula that starts with a baseline derived from the capital requirements that apply to all exposures underlying the securitization and then assigns risk weights based on the subordination level of an exposure. As a result, the SSFA provides for risk sensitivity by applying relatively higher capital requirements to the more risky junior tranches of a securitization that are the first to absorb losses and relatively lower requirements to the most senior exposures. The approach also takes into account delinquencies on underlying assets and adjusts the capital requirement up or down as a function of these delinquencies.

Table 6 aggregates our securitization exposure and RWA by risk-weight bands as of September 30, 2015.

**Table 6: Securitization Exposure and RWA by Risk-Weight Bands**

<i>(Dollars in millions)</i>	<b>September 30, 2015</b>	
	<b>Exposure</b>	<b>RWA</b>
20% to ≤ 100%	\$ 5,468	\$ 1,337
> 100% to ≤ 250%	1,049	1,934
> 250% to ≤ 500%	1,815	5,671
> 500% to ≤ 1250%	398	3,652
Total	<u>\$ 8,730</u>	<u>\$ 12,594</u>

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**EQUITIES**

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Equity exposure refers to a security or instrument that represents a direct or an indirect ownership interest in, and is a residual claim on, the assets and income of a company. Our equity exposures consist primarily of non-publicly traded investments in entities or funds that support community development initiatives, restricted equity investments in Federal Reserve Bank (“FRB”) and Federal Home Loan Bank (“FHLB”) stock, investment in funds related to our Bank-Owned Life Insurance (“BOLI”) and other miscellaneous investments. We invest in equity holdings primarily for business and strategic reasons and manage our exposure within our Risk Management framework.

For a discussion of the policies that determine the valuation of and accounting for our equity holdings, see “Note 1—Summary of Significant Accounting Policies—Principles of Consolidation” and “Note 1—Summary of Significant Accounting Policies—Restricted Equity Investments” of our 2014 Form 10-K.

**Regulatory Capital Approach**

We use the Alternative Modified Look-Through Approach (“AMLTA”) to calculate RWA for equity exposures to investment funds. Our investment funds are primarily related to our BOLI program. Under the AMLTA, the equity exposures are allocated on a pro rata basis depending on the investment fund limits in the fund prospectus and assigned a risk weight that corresponds to the investment type. We use the Simple Risk-Weight Approach (“SRWA”) for all other equity exposures. Under the SRWA, we apply the risk weights assigned by applicable regulations to the equity exposures. The SRWA sets a maximum risk weight of 100%, provided that the non-significant equity exposure does not exceed 10% of our Tier 1 plus Tier 2 capital. Our non-significant equity exposure did not exceed the 10% threshold and therefore the maximum risk weight we applied was 100%.

Table 7 provides a summary of our equity exposure and RWA as of September 30, 2015.

**Table 7: Capital Requirements by Risk-Weight for Equity Investments**

<i>(Dollars in millions)</i>	September 30, 2015		
	Exposure	Risk Weight	RWA
FRB stock	\$ 1,193	—%	\$ —
FHLB stock	217	20	43
BOLI and other investment funds	520	43	224
Community development	3,513	100	3,513
Other	363	100	363
Total	<u>\$ 5,806</u>		<u>\$ 4,143</u>

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**INTEREST RATE RISK**

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We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. For a discussion around the nature, key assumptions and frequency of measurement of interest rate risk and the sensitivity of net interest income and economic value of equity to interest rate movements, see “MD&A—Market Risk Profile—Market Risk Measurement” of our Q3 2015 Form 10-Q.

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## *Glossary and Acronyms*

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**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.

**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.

**Corporate exposure:** Exposure that is not an exposure to a sovereign, a depository institution, a foreign bank, a credit union, a public-sector entities, a residential mortgage exposure, a pre-sold construction loan, a statutory multifamily mortgage, a HVCRE exposure, a cleared transaction, a default fund contribution, a securitization exposure, an equity exposure, or an unsettled transaction.

**Delinquent or past due exposures:** An exposure that is not guaranteed or not secured (and that is not a sovereign exposure or a residential mortgage exposure) if it is 90 days or more past due or on nonaccrual.

**Dodd-Frank Act:** Dodd-Frank Wall Street Reform and Consumer Protection Act

**Excess allowance for loan and lease losses:** Portion of the allowance for loan and lease losses that exceeds the 1.25% threshold of risk-weighted assets and is therefore not includible in Tier 2 capital. Excess allowance is deducted from risk-weighted assets for regulatory capital calculation.

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

**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.

**High Volatility Commercial Real Estate (“HVCRE”):** Wholesale exposure or credit facility that finances or has financed the acquisition, development, or construction of real property.

**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.

**Public sector entity:** A state, local authority, or other governmental subdivision below the level of a sovereign, including U.S. states and municipalities.

**Residential mortgage exposure:** An exposure that is primarily secured by a first or subsequent lien on a one-to-four family residential property, or an exposure with an original and outstanding amount of \$1 million or less that is primarily secured by a first or subsequent lien on residential property that is not one-to-four family.

**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.

**Sovereign exposure:** An exposure directly and unconditionally backed by the full faith and credit of a central government or an agency, department, ministry, or central bank of a central government.

**Statutory multifamily mortgage:** A loan secured by a multifamily residential property that meets the requirements under the Resolution Trust Corporation Refinancing, Restructuring, and Improvement Act of 1991.

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## *Acronyms*

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**ABS:** Asset-backed security

**AMLTA:** Alternative Modified Look-Through Approach

**AOCI:** Accumulated other comprehensive income  
**BHC:** Bank holding company  
**BOLI:** Bank-Owned Life Insurance  
**CCAR:** Comprehensive Capital Analysis and Review  
**CET1:** Common equity Tier 1  
**CMBS:** Commercial mortgage-backed securities  
**COEP:** Capital One (Europe) plc  
**COF:** Capital One Financial Corporation  
**FHLB:** Federal Home Loan Banks  
**FRB:** Federal reserve bank  
**ICAAP:** Internal Capital Adequacy Assessment Process  
**OCC:** Office of the Comptroller of the Currency  
**OTC:** Over-the-counter  
**PCA:** Prompt corrective action  
**RMBS:** Residential mortgage-backed securities  
**RWA:** Risk-weighted assets  
**SLR:** Supplementary leverage ratio  
**SPE:** Special Purpose Entity  
**SRWA:** Simple Risk-Weight Approach  
**SSFA:** Simplified Supervisory Formula Approach



## DISCLOSURE MAP

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