



# **Fourth Quarter 2016 Results**

**January 24, 2017**

# 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 24, 2017, available on its website at [www.capitalone.com](http://www.capitalone.com) under "Investors."

# Company Highlights

- Net income for the fourth quarter of 2016 of \$791 million, or \$1.45 per diluted common share; full year 2016 net income of \$3.8 billion, or \$6.89 per diluted common share.
- Pre-provision earnings decreased 7% to \$2.9 billion for the fourth quarter of 2016 and increased 15% to \$11.9 billion for full year 2016.
- Efficiency ratio of 56.03% for the fourth quarter of 2016 and 53.17% for full year 2016
  - Efficiency ratio excluding adjusting items was 55.12% for the fourth quarter of 2016 and 52.68% for full year 2016<sup>(1)</sup>.
- Notable items in the quarter included:

*(Dollars in millions)*

	Pre-Tax Impact	Diluted EPS Impact
Build in the U.K. Payment Protection Insurance customer refund reserve (“U.K. PPI Reserve”)	\$ 44	\$ 0.09
Impairment charge associated with certain acquired intangible and software assets	28	0.04
Allowance build in our Auto business regarding the treatment of certain bankrupt accounts	62	0.08

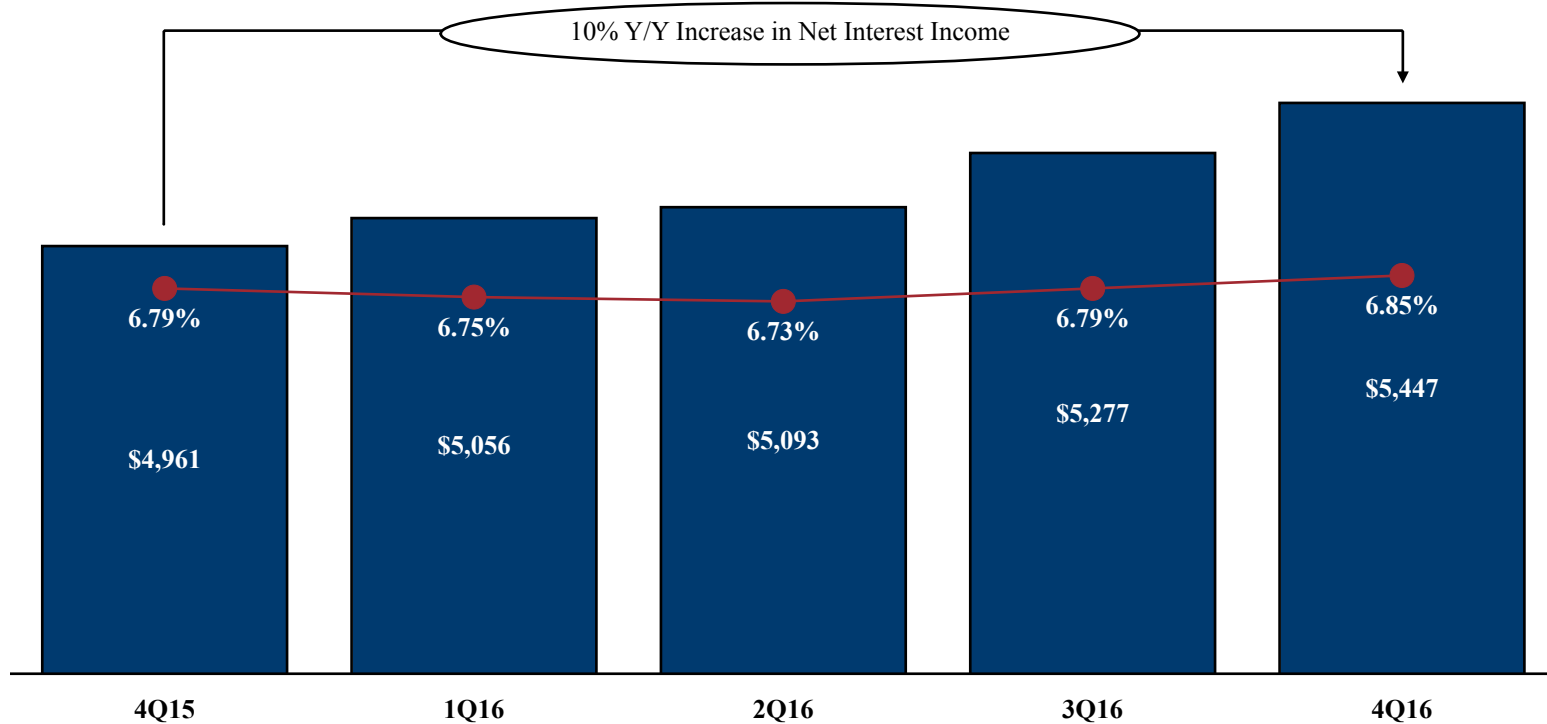
- Common equity Tier 1 capital ratio under Basel III Standardized Approach of 10.1% at December 31, 2016.
- Period-end loans held for investment increased \$7.6 billion, or 3%, to \$245.6 billion.
- Average loans held for investment increased \$4.2 billion, or 2%, to \$240.0 billion.
- Period-end total deposits increased \$10.8 billion, or 5%, to \$236.8 billion.
- Average deposits increased \$10.0 billion, or 4%, to \$232.2 billion.

Note: All comparisons are for the fourth quarter of 2016 compared with the third quarter of 2016 unless otherwise noted.

<sup>(1)</sup> Efficiency ratio excluding adjusting items is a non-GAAP measure. See Appendix for the reconciliation of this non-GAAP measure to our reported results. The U.K. PPI Reserve build and impairment charge associated with certain acquired intangible and software assets in the notable items table herein are both considered adjusting items for this non-GAAP measure.

# Net Interest Income and Net Interest Margin

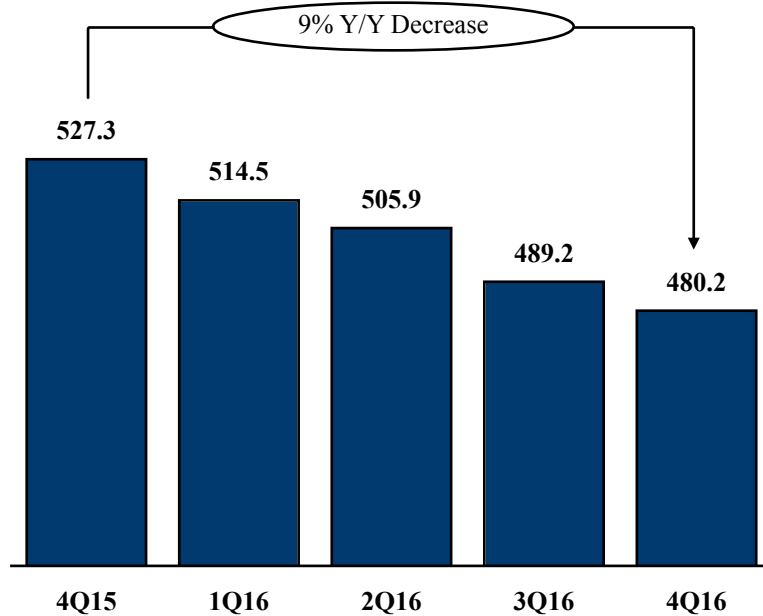
Net Interest Income (\$M) and Net Interest Margin (%)



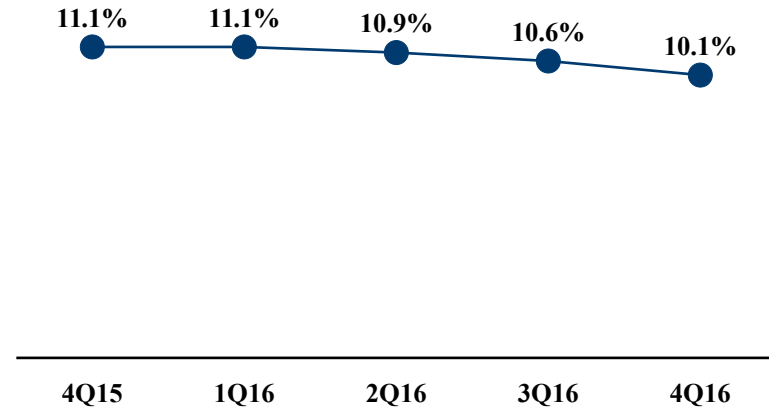
## Fourth Quarter 2016 Highlights

- Net interest margin increased 6 basis points quarter-over-quarter primarily driven by higher yields in our Credit Card business.
- Net interest margin increased 6 basis points year-over-year primarily driven by higher interest rates and strong growth in our Domestic Card business.

### Ending Common Shares Outstanding (M)



### Common Equity Tier 1 Capital Ratio (%)



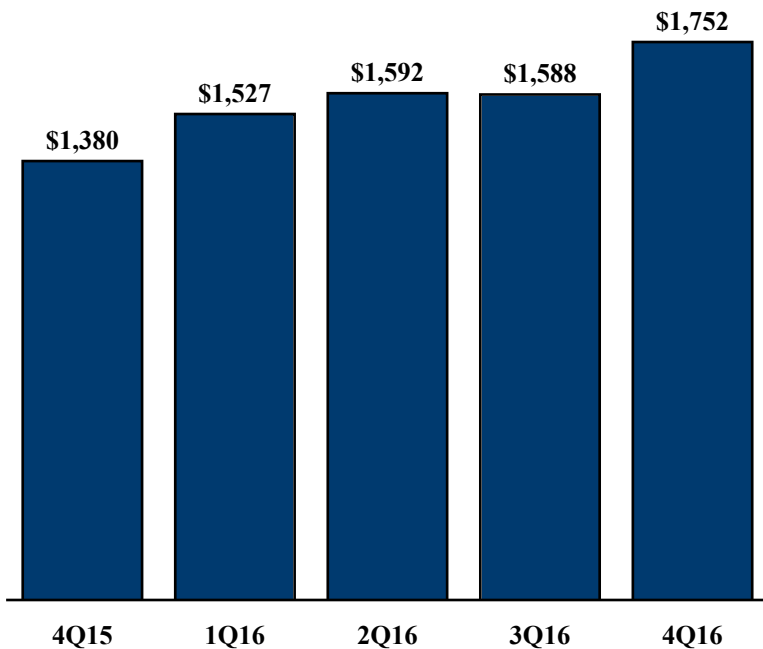
## Fourth Quarter 2016 Highlights

- Common equity Tier 1 capital ratio under Basel III Standardized Approach of 10.1% at December 31, 2016.
- Reduced common shares outstanding by 9 million shares in the fourth quarter of 2016.
- We exceeded the fully phased-in LCR requirement at December 31, 2016<sup>(1)</sup>.

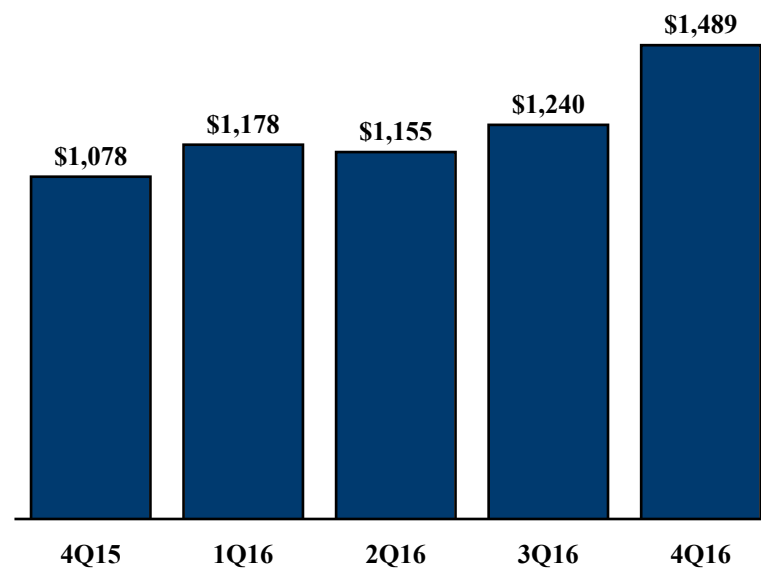
Note: Regulatory capital metrics and capital ratios as of December 31, 2016 are preliminary and therefore subject to change.

<sup>(1)</sup> Based on our current interpretations, expectations and assumptions of the relevant regulations.

## Provision



## Net Charge-Offs



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### Fourth Quarter 2016 Highlights

- Net charge-off rate of 2.48%.
- Allowance increased to \$6.5 billion.
- Allowance as a percentage of loans held for investment of 2.65%.

# Financial Summary—Business Segment Results



<i>(Dollars in millions)</i>	Three Months Ended December 31, 2016				
	Credit Card	Consumer Banking	Commercial Banking	Other	Total
Net interest income	\$ 3,353	\$ 1,498	\$ 565	\$ 31	\$ 5,447
Non-interest income	849	166	175	(71)	1,119
Total net revenue	4,202	1,664	740	(40)	6,566
Provision (benefit) for credit losses	1,322	365	66	(1)	1,752
Non-interest expense	2,073	1,109	393	104	3,679
Income (loss) from continuing operations before income taxes	807	190	281	(143)	1,135
Income tax provision (benefit)	295	70	102	(125)	342
Income (loss) from continuing operations, net of tax	\$ 512	\$ 120	\$ 179	\$ (18)	\$ 793

	2016 Q4 vs.				
	2016	2016	2015	2016	2015
(Dollars in millions)	Q4	Q3	Q4	Q3	Q4
<b>Earnings:</b>					
Net interest income	\$ 3,090	\$ 2,956	\$ 2,718	5%	14%
Non-interest income	791	759	830	4	(5)
Total net revenue	3,881	3,715	3,548	4	9
Provision (benefit) for credit losses	1,229	1,190	945	3	30
Non-interest expense	1,859	1,696	1,796	10	4
Pre-tax income	793	829	807	(4)	(2)
<b>Selected performance metrics:</b>					
Period-end loans held for investment	97,120	90,955	87,939	7	10
Average loans held for investment	92,623	89,763	83,760	3	11
Total net revenue margin	16.76%	16.55%	16.95%	21bps	(19)bps
Net charge-off rate	4.66	3.74	3.75	92	91
Purchase volume	\$ 75,639	\$ 71,331	\$ 68,740	6%	10%

## Fourth Quarter 2016 Highlights

- Ending loans up \$9.2 billion, or 10%, year-over-year; average loans up \$8.9 billion, or 11%, year-over-year.
- Purchase volume up 10% year-over-year.
- Revenue up \$333 million, or 9%, year-over-year.
- Revenue margin of 16.76%.
- Non-interest expense up \$63 million, or 4%, year-over-year.
- Provision for credit losses up \$284 million year-over-year.
- Net charge-off rate up 91 basis points year-over-year to 4.66%.



	2016 Q4 vs.				
	2016 Q4	2016 Q3	2015 Q4	2016 Q3	2015 Q4
<i>(Dollars in millions)</i>					
<b>Earnings:</b>					
Net interest income	\$ 1,498	\$ 1,472	\$ 1,434	2%	4%
Non-interest income	166	201	182	(17)	(9)
Total net revenue	1,664	1,673	1,616	(1)	3
Provision (benefit) for credit losses	365	256	240	43	52
Non-interest expense	1,109	1,034	1,057	7	5
Pre-tax income	190	383	319	(50)	(40)
<b>Selected performance metrics:</b>					
Period-end loans held for investment	73,054	72,285	70,372	1	4
Average loans held for investment	72,659	71,727	70,704	1	3
Auto loan originations	6,542	6,804	4,977	(4)	31
Period-end deposits	181,917	178,793	172,702	2	5
Average deposits	180,019	177,402	171,521	1	5
Average deposit interest rate	0.57%	0.56%	0.54%	1bps	3bps
Net charge-off rate	1.45	1.26	1.32	19	13

## Fourth Quarter 2016 Highlights

- Ending loans up \$2.7 billion, or 4%, year-over-year; average loans up \$2.0 billion, or 3%, year-over-year.
- Ending deposits of \$181.9 billion, up 5% year-over-year.
- Auto loan originations up \$1.6 billion, or 31%, year-over-year.
- Revenue up \$48 million, or 3%, year-over-year.
- Provision for credit losses up \$125 million, year-over-year.
- Non-interest expense up \$52 million, or 5%, year-over-year.

	2016 Q4 vs.				
	2016 Q4	2016 Q3	2015 Q4	2016 Q3	2015 Q4
<i>(Dollars in millions)</i>					
<b>Earnings:</b>					
Net interest income	\$ 565	\$ 555	\$ 484	2%	17%
Non-interest income	175	156	142	12	23
Total net revenue	740	711	626	4	18
Provision (benefit) for credit losses	66	61	118	8	(44)
Non-interest expense	393	349	342	13	15
Pre-tax income	281	301	166	(7)	69
<b>Selected performance metrics:</b>					
Period-end loans held for investment	66,916	66,457	63,266	1	6
Average loans held for investment	66,515	66,034	57,379	1	16
Period-end deposits	33,866	33,611	34,257	1	(1)
Average deposits	34,029	33,498	33,797	2	1
Average deposit interest rate	0.30%	0.30%	0.26%	—	4bps
Net charge-off rate	0.47	0.66	0.03	(19)bps	44
<b>Risk category as a percentage of period-end loans held for investment:<sup>(1)</sup></b>					
Criticized performing	3.7	3.7	3.2	—	50bps
Criticized nonperforming	1.5	1.5	0.9	—	60

## Fourth Quarter 2016 Highlights

- Ending loans up \$3.7 billion, or 6%, year-over-year.
- Average loans up \$9.1 billion, or 16%, year-over-year, including the loans from the GE Healthcare acquisition; average deposits up \$232 million, or 1%, year-over-year.
- Revenue up \$114 million, or 18%, year-over-year.
- Non-interest expense up \$51 million, or 15%, year-over-year.
- Provision for credit losses down \$52 million year-over-year.
- Net charge-off rate up 44 basis points year-over-year to 0.47%.
- Criticized performing loan rate of 3.7% and criticized nonperforming loan rate of 1.5%.

<sup>(1)</sup> Criticized exposures correspond to the “Special Mention,” “Substandard” and “Doubtful” asset categories defined by bank regulatory authorities.

# Appendix

# Non-GAAP Measures



	2016			2016			2016			Year Ended		
	Q4			Q3			Q2			December 31, 2016		
<i>(Dollars in millions)</i>	Reported Results	Adjustments <sup>(1)</sup>	Adjusted Results	Reported Results	Adjustments <sup>(1)</sup>	Adjusted Results	Reported Results	Adjustments <sup>(1)</sup>	Adjusted Results	Reported Results	Adjustments <sup>(1)</sup>	Adjusted Results
<b>Selected income statement data:</b>												
Net interest income	\$ 5,447	\$ 13	\$ 5,460	\$ 5,277	\$ 34	\$ 5,311	\$ 5,093	\$ 7	\$ 5,100	\$ 20,873	\$ 54	\$20,927
Non-interest income	1,119	14	1,133	1,184	13	1,197	1,161	8	1,169	4,628	35	4,663
Total net revenue	6,566	27	6,593	6,461	47	6,508	6,254	15	6,269	25,501	89	25,590
Non-interest expense	3,679	(45)	3,634	3,361	(16)	3,345	3,295	(15)	3,280	13,558	(76)	13,482
<b>Selected performance metrics:</b>												
Efficiency ratio	56.03%	(91)bps	55.12%	52.02%	(62)bps	51.40%	52.69%	(37)bps	52.32%	53.17%	(49)bps	52.68%

Note: The selected adjusted results presented in this slide are non-GAAP measures. We believe these measures help investors and users of our financial information understand the effect of the adjustments on our selected reported results and provide an alternate measurement of our performance. 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. The table above presents reconciliation of these non-GAAP measures to the applicable amounts measured in accordance with GAAP.

<sup>(1)</sup> In Q4 2016, we recorded charges totaling \$72 million consisting of a build in the U.K. Payment Protection Insurance customer refund reserve ("U.K. PPI Reserve") of \$44 million and an impairment associated with certain acquired intangible and software assets of \$28 million. In Q3 2016, we recorded a build in the U.K. PPI Reserve of \$63 million. In Q2 2016, we recorded charges totaling \$30 million associated with a build of \$54 million in the U.K. PPI Reserve, partially offset by a gain of \$24 million related to the exchange of our ownership interest in Visa Europe with Visa Inc. as a result of Visa Inc.'s acquisition of Visa Europe.

# Credit Score Distribution



<i>(Percentage of portfolio)</i>	December 31, 2016	September 30, 2016	June 30, 2016	March 31, 2016	December 31, 2015
<b>Domestic credit card—Refreshed FICO scores:<sup>(1)</sup></b>					
Greater than 660	64%	64%	65%	65%	66%
660 or below	36	36	35	35	34
Total	100%	100%	100%	100%	100%
<b>Auto—At origination FICO scores:<sup>(2)</sup></b>					
Greater than 660	52%	51%	51%	51%	51%
621 - 660	17	17	17	17	17
620 or below	31	32	32	32	32
Total	100%	100%	100%	100%	100%

<sup>(1)</sup> Credit scores generally represent Fair Isaac Corporation (“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.

<sup>(2)</sup> Credit scores generally represent average FICO scores obtained from three credit bureaus at the time of application and are not refreshed thereafter. Balances for which no credit score is available or the credit score is invalid are included in the 620 or below category.

# Commercial Oil and Gas Portfolio



<i>(Dollars in millions)</i>	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
<b>Commercial oil and gas portfolio:</b>					
Loans held for investment: <sup>(1)</sup>					
Exploration and production	\$ 1,402	\$ 1,524	\$ 1,600	\$ 1,831	\$ 1,620
Oilfield services	657	705	862	842	969
Midstream and other	472	415	527	544	531
Total loans held for investment	<u>2,531</u>	<u>2,644</u>	<u>2,989</u>	<u>3,217</u>	<u>3,120</u>
Unfunded exposure:					
Exploration and production	1,855	1,604	1,629	1,694	2,204
Oilfield services	365	452	421	441	547
Midstream and other	662	713	611	593	607
Total unfunded exposure	<u>2,882</u>	<u>2,769</u>	<u>2,661</u>	<u>2,728</u>	<u>3,358</u>
Total commercial oil and gas portfolio maximum credit exposure	<u>\$ 5,413</u>	<u>\$ 5,413</u>	<u>\$ 5,650</u>	<u>\$ 5,945</u>	<u>\$ 6,478</u>
<b>Selected performance metrics:</b>					
Allowance for loan and lease losses	\$ 227	\$ 243	\$ 265	\$ 262	\$ 189
Allowance as a percentage of loans held for investment	8.99%	9.18%	8.87%	8.15%	6.06%
Total reserves <sup>(2)</sup>	\$ 262	\$ 275	\$ 310	\$ 359	\$ 231
Loans as a percentage of total commercial loans held for investment	3.78%	3.98%	4.51%	5.01%	4.93
Loans as a percentage of total company loans held for investment	1.03	1.11	1.27	1.41	1.36
Criticized performing loan rate	28.19	29.51	33.05	35.78	21.31
Nonperforming loan rate	20.98	20.80	18.63	19.15	8.24

<sup>(1)</sup> Loans held for investment represents unpaid principal balance less charge-offs.

<sup>(2)</sup> Total reserves represent the allowance for loan and lease losses and the reserve for unfunded lending commitments recorded in other liabilities.

# Commercial Taxi Medallion Lending Portfolio



<i>(Dollars in millions)</i>	2016 Q4	2016 Q3	2016 Q2	2016 Q1	2015 Q4
<b>Commercial taxi medallion lending portfolio:</b>					
Total loans held for investment <sup>(1)</sup>	\$ 690	\$ 773	\$ 854	\$ 873	\$ 909
<b>Selected performance metrics:</b>					
Allowance for loan and lease losses	\$ 104	\$ 111	\$ 128	\$ 68	\$ 62
Allowance as a percentage of loans held for investment	15.09%	14.32%	15.04%	7.78%	6.82%
Loans as a percentage of total commercial loans held for investment	1.03	1.16	1.29	1.36	1.44
Loans as a percentage of total company loans held for investment	0.28	0.32	0.36	0.38	0.40
Criticized performing loan rate	29.40	41.32	36.05	40.50	35.18
Nonperforming loan rate	51.46	38.81	37.85	29.93	18.49

<sup>(1)</sup> Total loans held for investment represents unpaid principal balance less charge-offs and reflects our maximum credit exposure for this portfolio.