CAPITAL ONE FINANCIAL CORP
Form 10-K
February 25, 2016

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

FORM 10-K

ý ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the fiscal year ended December 31, 2015
OR
¨ TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the transition period from to
Commission File No. 1-13300

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

Delaware	54-1719854
(State or Other Jurisdiction of Incorporation or Organization)	(I.R.S. Employer Identification No.)
1680 Capital One Drive, McLean, Virginia	22102
(Address of Principal Executive Offices)	(Zip Code)

Registrant's telephone number, including area code: (703) 720-1000

Securities registered pursuant to section 12(b) of the act:

Title of Each Class	Name of Each Exchange on Which Registered
Common Stock (par value $.01 per share)	New York Stock Exchange
Warrants (expiring November 14, 2018)	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series B	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series C	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series D	New York Stock Exchange
Depositary Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series F	New York Stock Exchange

Securities Registered Pursuant to Section 12(g) of the Act: None

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ý No ¨
Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No ý

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

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

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K. ¨

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

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨	Smaller reporting company	¨

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

The aggregate market value of the voting stock held by non-affiliates of the registrant as of the close of business on June 30, 2015 was approximately $47,456,297,783. As of January 29, 2016, there were 527,379,971 shares of the registrant's Common Stock outstanding.

DOCUMENTS INCORPORATED BY REFERENCE

1. Portions of the Proxy Statement for the annual meeting of stockholders to be held on May 5, 2016, are incorporated by reference into Part III.

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PART I
Item 1. Business
OVERVIEW
General
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 December 31, 2015, our principal subsidiaries included:

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

The Company is hereafter collectively referred to as "we," "us" or "our." COBNA and CONA are collectively referred to as the "Banks." References to "this Report" or our "2015 Form 10-K" or "2015 Annual Report" are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2015. All references to 2015, 2014, 2013, 2012 and 2011, refer to our fiscal years ended, or the dates, as the context requires, December 31, 2015, December 31, 2014, December 31, 2013, December 31, 2012 and December 31, 2011, respectively. Certain business terms used in this document are defined in the "MD&A—Glossary and Acronyms" and should be read in conjunction with the Consolidated Financial Statements included in this Report.
As one of the nation's ten largest banks based on deposits as of December 31, 2015, we service banking customer accounts through the internet and mobile banking, as well as through ATMs and branch locations primarily across New York, Louisiana, Texas, Maryland, Virginia, New Jersey and the District of Columbia. We also operate the largest online direct banking institution in the United States ("U.S.") by deposits. In addition to bank lending, treasury management and depository services, we offer credit and debit card products, auto loans and mortgage banking in markets across the United States. We were the fourth largest issuer of Visa® ("Visa") and MasterCard® ("MasterCard") credit cards in the United States based on the outstanding balance of credit card loans as of December 31, 2015.
We also offer products outside of the United States 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 and installment loans. Our branch of COBNA in Canada has the authority to provide credit card loans.
Recent Acquisitions and Dispositions
We regularly explore and evaluate opportunities to acquire financial services and financial assets, including credit card and other loan portfolios, and enter into strategic partnerships as part of our growth strategy. We also explore opportunities to acquire digital companies and related assets to improve our information technology infrastructure and to deliver on our digital strategy. We also regularly consider the potential disposition of certain of our assets, branches, partnership agreements or lines of businesses. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions. Below we provide information on acquisitions and dispositions completed in 2015, 2014 and 2013:

- On December 1, 2015, we completed the acquisition of the Healthcare Financial Services business of General Electric Capital Corporation ("GE Healthcare acquisition"). As part of this acquisition, we recorded approximately $9.2 billion in assets, including $8.3 billion of loans.
- On November 1, 2013, we completed the acquisition of Beech Street Capital, a privately-held, national originator and servicer of the Federal National Mortgage Association ("Fannie Mae"), the Federal Home Loan Mortgage Corporation ("Freddie Mac") and the Federal Housing Administration ("FHA") multifamily commercial real estate loans. At closing,

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we acquired a mortgage servicing portfolio on approximately $10 billion of loans. Beech Street Capital was renamed Capital One Multifamily Finance in 2014.

- On September 6, 2013, we completed the sale of the Best Buy private label and co-branded credit card portfolio to Citibank, N.A. (“Portfolio Sale”). Pursuant to the agreement with Citibank, N.A., we received $6.4 billion for the net portfolio assets.

See “Note 2—Business Developments” for additional information on our business acquisitions and dispositions.

Additional Information

Our common stock trades on the New York Stock Exchange (“NYSE”) under the symbol “COF” and is included in the Standard & Poor’s (“S&P”) 100 Index. Our principal executive office is located at 1680 Capital One Drive, McLean, Virginia 22102, telephone number (703) 720-1000. We maintain a website at www.capitalone.com. Documents available on our website include: (i) our Code of Business Conduct and Ethics for the Corporation; (ii) our Corporate Governance Guidelines; and (iii) charters for the Audit, Compensation, Governance and Nominating, and Risk Committees of the Board of Directors. These documents also are available in print to any stockholder who requests a copy.

In addition, we make available free of charge through our website our Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q, Current Reports on Form 8-K and amendments to those reports as soon as reasonably practicable after electronically filing or furnishing such material to the U.S. Securities and Exchange Commission (“SEC”).

OPERATIONS AND BUSINESS SEGMENTS

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

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

- Credit Card: Consists of our domestic consumer and small business card lending, and the international card lending businesses in Canada and the United Kingdom.
- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, national auto lending and consumer home loan lending and servicing activities.
- Commercial Banking: Consists of our lending, deposit gathering and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between $10 million and $1 billion.

Customer usage and payment patterns, credit quality, levels of marketing expense and operating efficiency all affect our profitability. In our Credit Card business, we experience fluctuations in purchase volume and the level of outstanding loan receivables due to higher seasonal consumer spending and payment patterns around the winter holiday season, summer vacations and back-to-school periods. No individual quarter in 2015, 2014 or 2013 accounted for more than 30% of our total revenues in any of these fiscal years. Net charge-off rates in our Credit Card and Consumer Banking businesses also have historically exhibited seasonal patterns and generally tend to be the highest in the first and fourth quarters of the year.

For additional information on our business segments, including the financial performance of each business, see “Part II—Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations (“MD&A”)—Executive Summary and Business Outlook,” “MD&A—Business Segment Financial Performance” and “Note 20—Business Segments” c this Report.

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SUPERVISION AND REGULATION

General

Capital One Financial Corporation is a bank holding company ("BHC") under Section 3 of the Bank Holding Company Act of 1956, as amended (12 U.S.C. § 1842) ("BHC Act") and is subject to the requirements of the BHC Act, including its required approvals for investments in or acquisitions of banking organizations, capital adequacy standards and limitations on our nonbanking activities. We are also subject to supervision, examination and regulation by the Board of Governors of the Federal Reserve System ("Federal Reserve"). Permissible activities for a BHC include those activities that are so closely related to banking as to be proper incidents thereto, such as consumer lending and other activities that have been approved by the Federal Reserve by regulation or order. Certain servicing activities are also permissible for a BHC if conducted for or on behalf of the BHC or any of its affiliates. Impermissible activities for BHCs generally include nonfinancial activities such as sales of commercial products.

On May 27, 2005, we became a "financial holding company" under the Gramm-Leach-Bliley Act amendments to the BHC Act ("GLBA"). The GLBA removed many of the restrictions on the activities of BHCs that become financial holding companies. A financial holding company, and the nonbank companies under its control, are permitted to engage in activities considered financial in nature (including, for example, insurance underwriting, agency sales and brokerage, securities underwriting and dealing and merchant banking activities), incidental to financial activities and, if the Federal Reserve determines that they pose no risk to the safety or soundness of depository institutions or the financial system in general, activities complementary to financial activities.

For a BHC to become and remain eligible for financial holding company status, the BHC and its subsidiary depository institutions must meet certain criteria, including capital, management and Community Reinvestment Act ("CRA") requirements. The failure to meet such criteria could, depending on which requirements were not met, result in the Company facing restrictions on new financial activities or acquisitions or being required to discontinue existing activities that are not generally permissible for BHCs.

The Banks are national associations chartered under the laws of the United States, the deposits of which are insured by the Deposit Insurance Fund ("DIF") of the Federal Deposit Insurance Corporation ("FDIC") up to applicable limits. In addition to regulatory requirements imposed as a result of COBNA's international operations (discussed below), the Banks are subject to comprehensive regulation and periodic examination by the Office of the Comptroller of the Currency ("OCC"), the FDIC and the Consumer Financial Protection Bureau ("CFPB").

We also are registered as a financial institution holding company under Virginia law and, as such, we are subject to periodic examination by Virginia's Bureau of Financial Institutions. We also face regulation in the international jurisdictions in which we conduct business (see below under "Regulation of International Business by Non-U.S. Authorities").

Regulation of Business Activities

The business activities of the Company and Banks also are subject to regulation and supervision under various laws and regulations.

Regulations of Consumer Lending Activities

The activities of the Banks as consumer lenders are subject to regulation under various federal laws, including the Truth in Lending Act ("TILA"), the Equal Credit Opportunity Act, the Fair Credit Reporting Act, the CRA, the Servicemembers Civil Relief Act ("SCRA") and the Military Lending Act, as well as under various state laws. Depending on the underlying issue and applicable law, regulators are often authorized to impose penalties for violations of these statutes and, in certain cases, to order banks to compensate injured borrowers. Borrowers may also have a private right of action for certain violations. Federal bankruptcy and state debtor relief and collection laws also affect the ability of a bank to collect outstanding balances owed by borrowers. These laws may affect the ability of banks to collect outstanding balances.

The Credit Card Accountability Responsibility and Disclosure Act (amending the TILA) enacted in May 2009, and related changes to Regulation Z, impose a number of restrictions on credit card practices impacting rates and fees, require that a consumer's ability to pay be taken into account before issuing credit or increasing credit limits, and update the disclosures required for open-end credit.

3	Capital One Financial Corporation (COF)

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Mortgage Lending

The CFPB has issued several final rules pursuant to the Dodd-Frank Wall Street Reform and Consumer Protection Act ("Dodd-Frank Act") that provide additional disclosure requirements and substantive limitations on our mortgage lending activities. These rules, which include the Ability-to-Repay and Qualified Mortgage Standards under the TILA (Regulation Z) and Integrated Mortgage Disclosures under the Real Estate Settlement Procedures Act (Regulation X) and the TILA (Regulation Z), could impact the type and amount of mortgage loans we offer.

Under the Dodd-Frank Act credit risk retention rules, securitizers also are generally required to retain a 5% economic interest in the credit risk of assets sold through the issuance of asset-backed securitizations, with an exemption for traditionally underwritten residential mortgage loans that meet the definition of a qualified residential mortgage loan. The final implementing rules on risk retention define a qualified residential mortgage loan to be identical to the CFPB's definition of a qualified mortgage loan. Therefore, we may securitize such loans without being required to retain credit risk under these rules.

Debit Interchange Fees

The Dodd-Frank Act requires that the amount of any interchange fee received by a debit card issuer with respect to debit card transactions be reasonable and proportional to the cost incurred by the issuer with respect to the transaction. In 2011 and 2012, the Federal Reserve adopted final rules that implement the portion of the Dodd-Frank Act that limits interchange fees received by a debit card issuer. The final rules limited interchange fees per debit card transaction to $0.21 plus five basis points of the transaction amount and provided for an additional $0.01 fraud prevention adjustment to the interchange fee for issuers that meet certain fraud prevention requirements. In August 2015, the Federal Reserve issued a clarification regarding the inclusion of transaction-monitoring costs in its interchange fee rules, which clarification did not have any impact on the rules or our debit card business. The clarification followed a series of decisions in the federal courts that upheld the interchange rules.

Bank Secrecy Act and USA PATRIOT Act of 2001

The Bank Secrecy Act and the USA PATRIOT Act of 2001 ("Patriot Act") require financial institutions, among other things, to implement a risk-based program reasonably designed to prevent money laundering and to combat the financing of terrorism, including through suspicious activity and currency transaction reporting, compliance, record-keeping and due diligence on customers.

The Patriot Act also contains financial transparency laws and enhanced information collection tools and enforcement mechanisms for the U.S. government, including: due diligence and record-keeping requirements for private banking and correspondent accounts; standards for verifying customer identification at account opening; and rules to produce certain records upon request of a regulator or law enforcement and to promote cooperation among financial institutions, regulators, and law enforcement in identifying parties that may be involved in terrorism, money laundering and other crimes.

Funding

Under the Federal Deposit Insurance Corporation Improvement Act of 1991 ("FDICIA"), as discussed in "MD&A—Liquidity Risk Profile," only well-capitalized and adequately-capitalized institutions may accept brokered deposits. Adequately-capitalized institutions, however, must first obtain a waiver from the FDIC before accepting brokered deposits, and such deposits may not pay rates that significantly exceed the rates paid on deposits of similar maturity from the institution's normal market area or, for deposits from outside the institution's normal market area, the national rate on deposits of comparable maturity. The FDIC is authorized to terminate a bank's deposit insurance upon a finding by the FDIC that the bank's financial condition is unsafe or unsound or that the institution has engaged in unsafe or unsound practices or has violated any applicable rule, regulation, order or condition enacted or imposed by the bank's regulatory agency. The termination of deposit insurance for a bank could have a material adverse effect on its liquidity and its earnings.

For any of our funding conducted through securitization, in addition to the credit risk retention provision requiring a securitizer to retain a portion of the credit risk of an asset-backed securitization, the Dodd-Frank Act also prohibits conflicts of interest relating to securitizations.

Nonbank Activities

Certain of our nonbank subsidiaries are subject to supervision and regulation by various other federal and state authorities. Capital One Securities, Inc. and Capital One Investing, LLC (formerly known as Capital One Sharebuilder, Inc.) are registered broker-

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dealers regulated by the SEC and the Financial Industry Regulatory Authority. Our broker-dealer subsidiaries are subject to, among other things, net capital rules designed to measure the general financial condition and liquidity of a broker-dealer. Under these rules, broker-dealers are required to maintain the minimum net capital deemed necessary to meet their continuing commitments to customers and others, and are required to keep a substantial portion of their assets in relatively liquid form. These rules also limit the ability of broker-dealers to transfer capital to parent companies and other affiliates. Broker-dealers are also subject to other regulations covering their business operations, including sales and trading practices, public offerings, publication of research reports, use and safekeeping of client funds and securities, capital structure, record-keeping and the conduct of directors, officers and employees.

Capital One Asset Management LLC and Capital One Advisors, LLC (formerly known as ShareBuilder Advisors, LLC) are SEC-registered investment advisers regulated under the Investment Advisers Act of 1940. Capital One Asset Management LLC, whose sole client is CONA, provides investment advice to CONA's private banking customers, including trusts, high net worth individuals, institutions, foundations, endowments and other organizations,

Finally, Capital One Agency LLC is a licensed insurance agency that provides both personal and business insurance services to retail and commercial clients and is regulated by the New York State Department of Financial Services in its home state and by the state insurance regulatory agencies in the states in which it operates.

Derivative Activities

In 2012, the Commodity Futures Trading Commission ("CFTC") and the SEC jointly issued final rules further defining the Dodd-Frank Act's "swap dealer" definitions. Based on the final rules, no Capital One entity will be required to register with the CFTC or SEC as a swap dealer; however, this may change in the future. If such registration occurs, the registered entity is required to comply with additional regulatory requirements relating to its derivatives activities. The Dodd-Frank Act also requires all swap market participants to keep swap transaction data records and report certain information to swap data repositories on a real-time and on-going basis. Further, each swap, group, category, type or class of swap that the CFTC or SEC determines must be cleared will need to be cleared through a derivatives clearinghouse unless the swap is eligible for a clearing exemption and executed on a designated contract market ("DCM"), exchange or swap execution facility ("SEF"), unless no DCM, exchange or SEF has made the swap available for trading.

Volcker Rule

We and each of our subsidiaries, including the Banks, are subject to the "Volcker Rule," a provision of the Dodd-Frank Act that contains prohibitions on proprietary trading and certain investments in, and relationships with, covered funds (hedge funds, private equity funds, and similar funds), subject to certain exemptions and in each case as those terms are defined in the rule. The implementing regulations require that we maintain a robust compliance program in accordance with the requirements of the rule.

Capital Adequacy

The Company and the Banks are subject to capital adequacy guidelines adopted by the Federal Reserve and OCC. For a further discussion of the capital adequacy guidelines, see "MD&A—Capital Management" and "Note 13—Regulatory and Capital Adequacy." The Company and the Banks exceeded minimum regulatory requirements under these guidelines as of December 31, 2015.

Basel III and U.S. Capital and Liquidity Rules

In December 2010, the Basel Committee on Banking Supervision ("Basel Committee") published a final framework on additional capital and liquidity requirements ("Basel III"), which included detailed capital ratios and buffers, subject to transition periods through 2018. In November 2011, the Basel Committee adopted a framework that would impose an additional common equity Tier 1 capital buffer on globally systemically important banking organizations ("G-SIBs"), which surcharge would vary based on the company's systemic importance as determined using five criteria: size, interconnectedness, cross-jurisdictional activity, substitutability and complexity ("G-SIB Surcharge"). As discussed further below, Capital One is currently not identified as a G-SIB. In January 2014, the Basel Committee made changes to the leverage ratio rules to account for differences in national accounting frameworks. The Basel Committee continues to evaluate further modifications to these and other capital standards, which, if finalized, would require rulemaking in the United States prior to their effectiveness for U.S. banking organizations.

The Federal Reserve, OCC and FDIC (collectively, the “Federal Banking Agencies”) issued a rule in July 2013 that implemented the Basel III capital framework developed by the Basel Committee and certain Dodd-Frank Act and other capital provisions, and

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that updated the prompt corrective action (“PCA”) framework to reflect the new regulatory capital minimums (“Final Basel III Capital Rule”). The Final Basel III Capital Rule increases the minimum capital that we and other institutions are required to hold.

Prior to being revised in the Final Basel III Capital Rule in 2013, the minimum risk-based capital requirements adopted by the Federal Banking Agencies followed Basel I. In December 2007 the “Advanced Approaches” version of Basel II was adopted. The Final Basel III Capital Rule modified both Basel I and the Basel II Advanced Approaches (as modified, referred to respectively as the “Basel III Standardized Approach” and the “Basel III Advanced Approaches”). The Basel III Advanced Approaches is mandatory for those institutions with total consolidated assets of $250 billion or more or total consolidated on-balance-sheet foreign exposure of $10 billion or more. We became subject to these rules at the end of 2012. Prior to full implementation of the Basel III Advanced Approaches framework, organizations must complete a qualification period, known as the parallel run, during which they must meet the requirements of the rule to the satisfaction of their primary U.S. banking regulator. According to the rule, parallel run must last at least four quarters, though in practice it has taken U.S. banks considerably longer to complete parallel run. We entered parallel run on January 1, 2015. Compliance with the Basel III Advanced Approaches framework requires a material investment of resources in building processes and systems.

The so-called Collins Amendment to the Dodd-Frank Act, as implemented in the Final Basel III Capital Rule, establishes a capital floor so that organizations subject to the Basel III Advanced Approaches may not hold less capital than would be required using the Basel III Standardized Approach capital calculations. 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.

The Final Basel III Capital Rule revised the definition of regulatory capital, established a new common equity Tier 1 capital requirement, set higher minimum capital ratio requirements, introduced a new capital conservation buffer of 2.5%, introduced a new countercyclical capital buffer (currently set at 0.0%) and updated the PCA framework. Compliance with certain aspects of the Final Basel III Capital Rule went into effect for Capital One as of January 1, 2014 and other provisions go into effect according to different start dates and phase-in periods. As of January 1, 2014, the minimum risk-based and leverage capital requirements for Advanced Approaches banking organizations included a common equity Tier 1 capital ratio of at least 4.0%, a Tier 1 risk-based capital ratio of at least 5.5%, a total risk-based capital ratio of at least 8.0% and a Tier 1 leverage capital ratio of at least 4.0%. On January 1, 2015, the minimum risk-based capital ratio requirements increased to 4.5% for the common equity Tier 1 capital ratio and to 6.0% for the Tier 1 risk-based capital ratio, and the minimum requirements for the total risk-based capital ratio and Tier 1 leverage capital ratio remained the same. Both the capital conservation buffer and the countercyclical capital buffer will be phased-in over a transition period of four years commencing on January 1, 2016. On January 1, 2014, we started to use the Basel III Standardized Approach, including transition provisions, for calculating our capital ratios. On January 1, 2015, we began to use the Basel III Standardized Approach for calculating our risk-weighted assets in our regulatory capital ratios, which were previously calculated under Basel I.

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

For further information see “Part II—Item 7. MD&A—Capital Management.”

On July 20, 2015, the Federal Reserve approved a final rule establishing a G-SIB Surcharge for U.S.-based G-SIBs. The final rule establishes a methodology for determining which U.S. BHCs are considered G-SIBs and thus subject to a G-SIB Surcharge. A U.S. BHC whose score using the prescribed methodology equals or exceeds 130 is considered a G-SIB under the final rule. U.S. BHCs with total consolidated assets of $250 billion or more or total consolidated on-balance-sheet foreign exposure of $10 billion or more are required to determine annually, before December 31, beginning in 2015, whether or not they are considered G-SIBs for purposes of the G-SIB Surcharge. In connection with approving the final rule, the Federal Reserve identified eight U.S. BHCs that would be identified as G-SIBs based on the most recent available data. Capital One was not identified as a G-SIB based on the most recent available data.

The Basel Committee also published a liquidity framework in December 2010, which was subsequently amended. The liquidity framework includes two standards for liquidity risk supervision, each subject to observation periods and transitional arrangements. One standard, the liquidity coverage ratio ("LCR"), seeks to promote short-term resilience by requiring sufficient high-quality

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liquid assets to survive a stress scenario lasting for 30 days. The other standard, the net stable funding ratio (“NSFR”), seeks to promote longer-term resilience by requiring sufficient stable funding over a one-year period, based on the liquidity characteristics of assets and activities. We expect that minimum liquidity requirements for us and other institutions will increase as a result of the Basel III liquidity framework, though rules implementing the Basel III NSFR have not yet been proposed by the Federal Banking Agencies.

In September 2014, the Federal Banking Agencies issued final rules implementing the LCR in the United States. The rule (“Final LCR Rule”) applies to institutions with total consolidated assets of $250 billion or more or total consolidated on-balance sheet foreign exposure of $10 billion or more, and their respective consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets. As a result, the Company and the Banks are subject to the Final LCR Rule. The Final LCR Rule requires the Company and each of the Banks to hold an amount of eligible high-quality, liquid assets that equals or exceeds 100% of their respective projected net cash outflows over a 30-day period, each as calculated in accordance with the Final LCR Rule. The Final LCR Rule phases in the minimum LCR standard as follows: 80% by January 1, 2015; 90% by January 1, 2016; and 100% by January 1, 2017 and thereafter. The Final LCR Rule came into effect in January 2015 and requires us to calculate the LCR as of the last business day of each month from January 2015 until July 2016. As of July 1, 2016, the Final LCR Rule requires us to calculate the LCR on a daily basis. In preparation for the Final LCR Rule, we modified the composition of our investment portfolio, with some of those actions resulting in us purchasing types of securities that are lower yielding than securities we otherwise would have purchased if not for the Final LCR Rule.

We will continue to monitor regulators’ implementation of the new capital and liquidity rules and assess the potential impact to us.

Market Risk Capital Rule

A market risk capital rule, which the Federal Banking Agencies amended in August 2012, supplements both the general risk-based capital rules and the Basel III Advanced Approaches rules by requiring institutions subject to the rule to adjust their risk-based capital ratios to reflect the market risk in their trading activities. The rule applies to institutions with aggregate trading assets and liabilities equal to the lesser of (i) 10% or more of total assets or (ii) $1 billion or more. Currently, we are not subject to this rule but may become subject to it in the future. In January 2016, the Basel Committee issued a revised framework for minimum capital requirements for market risk, which would require rulemaking by the Federal Banking Agencies prior to it impacting capital requirements for market risk for U.S. banking institutions.

FDICIA and Prompt Corrective Action

In general, the FDICIA subjects banks to significantly increased regulation and supervision. Among other things, the FDICIA requires Federal Banking Agencies to take “prompt corrective action” for banks that do not meet minimum capital requirements. The FDICIA establishes five capital ratio levels: well capitalized; adequately capitalized; undercapitalized; significantly undercapitalized; and critically undercapitalized. The three undercapitalized categories are based upon the amount by which a bank falls below the ratios applicable to an adequately-capitalized institution. The capital categories are determined solely for purposes of applying the FDICIA’s PCA provisions, and such capital categories may not constitute an accurate representation of the Banks’ overall financial condition or prospects.

Under applicable regulations for 2014, an insured depository institution was considered to be well capitalized if it maintained a total risk-based capital ratio of at least 10%, a Tier 1 risk-based capital ratio of at least 6%, a Tier 1 leverage capital ratio of at least 5% and was not subject to any supervisory agreement, order or directive to meet and maintain a specific capital level for any capital measure. An insured depository institution was considered to be adequately capitalized if it maintained a total risk-based capital ratio of at least 8%, a Tier 1 risk-based capital ratio of at least 4% and a Tier 1 leverage capital ratio of at least 4% (3% for certain highly rated institutions), and did not otherwise meet the definition of well capitalized.

As noted above, the Final Basel III Capital Rule updated the PCA framework to reflect new, higher regulatory capital minimums. This rule adjusts the definitions of well capitalized and adequately capitalized. For an insured depository institution to be well capitalized, it must maintain a total risk-based capital ratio of 10% or more; a Tier 1 capital ratio of 8% or more; a common equity Tier 1 capital ratio of 6.5% or more; and a leverage ratio of 5% or more. An adequately-capitalized depository institution must maintain a total risk-based capital ratio of 8% or more; a Tier 1 capital ratio of 6% or more; a common equity Tier 1 capital ratio of 4.5% or more; a leverage ratio of 4% or more; and, for Basel III Advanced Approaches institutions, a supplementary leverage ratio, which incorporates a broader set of exposures as noted above, of 3% or more. The revised PCA requirements became effective

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on January 1, 2015, other than the supplementary leverage ratio, which becomes effective on January 1, 2018. As of December 31, 2015, each of the Banks met the requirements for a well-capitalized institution.

As an additional means to identify problems in the financial management of depository institutions, the FDICIA requires regulators to establish certain non-capital safety and soundness standards. The standards relate generally to operations and management, asset quality, interest rate exposure and executive compensation. The agencies are authorized to take action against institutions that fail to meet such standards.

Enhanced Prudential Standards and Other Requirements Under the Dodd-Frank Act

With the enactment of the Dodd-Frank Act, because we are a BHC with total consolidated assets of $50 billion or more (a "covered company"), we are subject to certain enhanced prudential standards, including requirements that may be recommended by the Financial Stability Oversight Council ("Council") and implemented by the Federal Reserve and other regulators. As a result, we are becoming subject to more stringent standards and requirements than those applicable for smaller institutions. The Council also may issue recommendations to the Federal Reserve or other primary financial regulatory agencies to apply new or heightened standards to risky financial activities or practices.

In 2011, the Federal Reserve and FDIC finalized rules requiring us to implement resolution planning for orderly resolution in the event the Company faces material financial distress or failure. The FDIC issued similar rules regarding resolution planning applicable to the Banks. Additionally, although not a direct requirement under the Dodd-Frank Act, the OCC proposed guidelines in December 2015 that would require the Banks to develop recovery plans detailing the actions necessary to remain a going concern when the Banks are experiencing considerable financial or operational stress, but have not deteriorated to the extent resolution is imminent.

In October 2012, the Federal Reserve issued a rule that implements the requirement in the Dodd-Frank Act that the Federal Reserve conducts annual stress tests on the capacity of our capital to absorb losses as a result of adverse economic conditions. The stress test rule also implements the requirement that we conduct our own semiannual stress tests and requires us to publish the results of the stress tests on our website or other public forum. The OCC finalized a similar stress test rule in October 2012, to implement the requirement that each of the Banks conduct annual stress tests.

In December 2011, the Federal Reserve released proposed rules implementing certain other aspects of the enhanced prudential standards under the Dodd-Frank Act. The Federal Reserve finalized certain of the proposed rules on February 18, 2014, and we were required to comply with these requirements beginning on January 1, 2015 ("Enhanced Standards Rule"). The Enhanced Standards Rule, however, did not finalize the proposed single-counterparty credit limits or early remediation framework. Under the Enhanced Standards Rule, we must meet liquidity risk management standards, conduct internal liquidity stress tests, and maintain a 30-day buffer of highly liquid assets, in each case, consistent with the requirements of the rule. These requirements are in addition to the Final LCR, discussed above in "Basel III and U.S. Capital and Liquidity Rules." In addition, the Enhanced Standards Rule requires that we comply with, and hold capital commensurate with the requirements of, any regulations adopted by the Federal Reserve relating to capital planning and stress tests. Stress testing and capital planning regulations are discussed further below under "Dividends, Stock Repurchases and Transfers of Funds."

The Enhanced Standards Rule also requires that we establish and maintain an enterprise-wide risk management framework that includes a risk committee and a chief risk officer.

While not a requirement of the Dodd-Frank Act, in 2014 the OCC issued regulatory guidelines ("Heightened Standards Guidelines") that apply heightened standards for risk management to large institutions subject to its supervision, including the Banks. The Heightened Standards Guidelines establish standards for the development and implementation by the Banks of a risk governance framework.

The Dodd-Frank Act also imposes new, more stringent standards and requirements with respect to bank and nonbank acquisitions and mergers and affiliate transactions. The Dodd-Frank Act also includes provisions related to corporate governance and executive compensation and new fees and assessments, among others.

The federal agencies have significant discretion in drafting the implementing regulations of the Dodd-Frank Act. Implementing regulations may result in modifications to our business models and organizational structure, and may subject us to escalating costs associated with any such changes. The full impact of the regulatory reform, including the

Dodd-Frank Act, will not be known for some time. In addition, the Dodd-Frank Act and subsequent legislation require various studies and reports to be delivered to Congress, which could result in additional legislative or regulatory action.

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Investment in the Company and the Banks

Certain acquisitions of our capital stock may be subject to regulatory approval or notice under federal or state law. Investors are responsible for ensuring that they do not, directly or indirectly, acquire shares of our capital stock in excess of the amount that can be acquired without regulatory approval, including under the BHC Act and the Change in Bank Control Act.

Federal law and regulations prohibit any person or company from acquiring control of the Company or the Banks without, in most cases, prior written approval of the Federal Reserve or the OCC, as applicable. Control exists if, among other things, a person or company acquires more than 25% of any class of our voting stock or otherwise has a controlling influence over us. For a publicly traded BHC like us, a rebuttable presumption of control arises if a person or company acquires more than 10% of any class of our voting stock.

Additionally, COBNA and CONA are "banks" within the meaning of Chapter 13 of Title 6.1 of the Code of Virginia governing the acquisition of interests in Virginia financial institutions ("Financial Institution Holding Company Act"). The Financial Institution Holding Company Act prohibits any person or entity from acquiring, or making any public offer to acquire, control of a Virginia financial institution or its holding company without making application to, and receiving prior approval from, the Virginia Bureau of Financial Institutions.

Dividends, Stock Repurchases and Transfers of Funds

In November 2011, the Federal Reserve finalized capital planning rules applicable to large BHCs including us (commonly referred to as Comprehensive Capital Analysis and Review or "CCAR"). Under the rules, a BHC with total consolidated assets of $50 billion or more must submit a capital plan to the Federal Reserve on an annual basis that contains a description of all planned capital actions, including dividends or stock repurchases, over a nine-quarter planning horizon beginning with the fourth quarter of the calendar year prior to the submission of the capital plan ("CCAR cycle"). The BHC may take the capital actions in its capital plan if the Federal Reserve provides a non-objection to the plan. The Federal Reserve's objection or non-objection generally applies to capital actions during the four quarters beginning with the second quarter of the second calendar year in the planning horizon.

On September 24, 2013, the Federal Reserve released an interim final rule that incorporated the Final Basel III Capital Rule into CCAR. On October 17, 2014, the Federal Reserve issued a final rule to modify the regulations for capital planning and stress testing ("2014 Final Capital Plan and Stress Test Rule"). In addition, the OCC issued a final rule in December 2014 modifying its Dodd-Frank Act stress testing regulation, to be consistent with the 2014 Final Capital Plan and Stress Test Rule changes to the Federal Reserve's Dodd-Frank Act stress testing regulation. The Dodd-Frank Act stress testing regulations are described above in "Enhanced Prudential Standards and Other Requirements under the Dodd-Frank Act."

The 2014 Final Capital Plan and Stress Test Rule changes the annual capital plan and stress test cycle start date from October 1 to January 1, effective for the cycle beginning January 1, 2016. Under the 2014 Final Capital Plan and Stress Test Rule, for the CCAR cycle under which capital plan submissions were due by January 5, 2015 ("2015 CCAR cycle"), the Federal Reserve's objection or non-objection applies to planned capital actions from the second quarter of 2015 through the second quarter of 2016. Subsequent submissions each would cover a four-quarter period. The change in the start date of the annual cycle impacts the as-of dates for data used to project results as well as the dates that stress test results must be submitted to the regulators and disclosed to the public. For the annual company-run stress test, a BHC is required to disclose the results within 15 calendar days after the Federal Reserve discloses the results of that BHC's supervisory stress test, unless that time period is extended by the Federal Reserve. The 2014 Final Capital Plan and Stress Test Rule requires a BHC to disclose results of its mid-cycle stress test within 30 calendar days after the BHC submits the results of its mid-cycle stress test to the Federal Reserve, unless that time period is extended by the Federal Reserve.

The 2014 Final Capital Plan and Stress Test Rule also provides a one-year deferral on the use of Basel III Advanced Approaches for banking institutions to estimate their capital ratios for the 2015 capital plan and stress test cycles. In addition, it shifts the focus of the Federal Reserve from annual capital issuances and distributions to quarterly capital issuances and distributions by establishing a new cumulative net distribution requirement. With certain limited exceptions, this requirement provides that--as measured on an aggregate basis beginning in the third quarter of the planning horizon--to the extent a BHC does not issue the amount of a given class of regulatory capital instrument that it projected in its capital plan, the BHC must reduce its capital distributions such that the cumulative net amounts of a BHC's actual capital issuances and capital distributions for each category of regulatory capital instrument cannot be less than the cumulative net amounts of capital issuances and capital distributions for that category of regulatory capital instrument projected in the BHC's capital plan.

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The Federal Reserve issued a final rule on November 25, 2015 to further modify its capital planning and stress testing regulations (“2015 Final Capital Plan and Stress Test Rule”). Among other changes, the 2015 Final Capital Plan and Stress Test Rule would indefinitely delay incorporation of the Basel III Advanced Approaches; remove the tier 1 common ratio from the capital plan and stress testing regulations, given the full phase-in of the common equity tier 1 capital requirement in the nine-quarter planning horizon of the 2016 capital plan and stress testing cycles; and delay the incorporation of the supplementary leverage ratio until the 2017 capital plan and stress testing cycles. In addition, on December 18, 2015, the Federal Reserve also issued guidance that summarizes and further details its supervisory expectations for the capital planning process, capital positions and modeling of large and complex firms such as the Company in connection with their capital planning and stress testing activities.

The purpose of the Federal Reserve’s capital plan and stress test rules is to ensure that large BHCs have robust, forward-looking capital planning processes that account for their unique risks and capital needs to continue operations through times of economic and financial stress. As part of its evaluation of a capital plan, the Federal Reserve will consider the comprehensiveness of the plan, the reasonableness of assumptions and analysis and methodologies used to assess capital adequacy and the ability of the BHC to maintain capital above each minimum regulatory capital ratio on a pro forma basis under expected and stressful conditions throughout a planning horizon of at least nine quarters. The 2016 CCAR cycle will measure our capital levels under the Basel III Standardized Approach, with appropriate phase-in provisions applicable to Capital One.

Traditionally, dividends to us from our direct and indirect subsidiaries have represented a major source of funds for us to pay dividends on our stock, make payments on corporate debt securities and meet our other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. In general, federal and applicable state banking laws prohibit, without first obtaining regulatory approval, insured depository institutions, such as the Banks, from making dividend distributions if such distributions are not paid out of available earnings or would cause the institution to fail to meet applicable capital adequacy standards.

Deposit Insurance Assessments

Each of CONA and COBNA, as an insured depository institution, is a member of the DIF maintained by the FDIC. Through the DIF, the FDIC insures the deposits of insured depository institutions up to prescribed limits for each depositor. The DIF was formed on March 31, 2006, upon the merger of the Bank Insurance Fund and the Savings Association Insurance Fund in accordance with the Federal Deposit Insurance Reform Act of 2005 (“Reform Act”). The Reform Act permits the FDIC to set a Designated Reserve Ratio (“DRR”) for the DIF. To maintain the DIF, member institutions may be assessed an insurance premium, and the FDIC may take action to increase insurance premiums if the DRR falls below its required level.

Prior to passage of the Dodd-Frank Act, the FDIC had established a plan to restore the DIF in the face of recent insurance losses and future loss projections, which resulted in several rules that generally increased deposit insurance rates and purported to improve risk differentiation so that riskier institutions bear a greater share of insurance premiums. The Dodd-Frank Act reformed the management of the DIF in several ways: raised the minimum DRR to 1.35% (from the former minimum of 1.15%); removed the upper limit on the DRR; required that the reserve ratio reach 1.35% by September 30, 2020 (rather than 1.15% by the end of 2016); required that in setting assessments, the FDIC must offset the effect of meeting the increased reserve ratio on small insured depository institutions; and eliminated the requirement that the FDIC pay dividends from the DIF when the reserve ratio reaches certain levels. The FDIC has set the DRR at 2% and, in lieu of dividends, has established progressively lower assessment rate schedules as the reserve ratio meets certain trigger levels. The Dodd-Frank Act also required the FDIC to change the deposit insurance assessment base from deposits to average total consolidated assets minus average tangible equity. In February 2011, the FDIC finalized rules to implement this change that significantly modified how deposit insurance assessment rates are calculated for those banks with assets of $10 billion or greater. On November 18, 2014, the FDIC issued final rules to amend its deposit insurance assessment regulation to conform to the Final Basel III Capital Rule and to the final rule revising the supplementary leverage ratio.

On October 22, 2015, the FDIC proposed rules to implement the requirement that the FDIC offset the effect of meeting the increased reserve ratio from 1.15% to 1.35% on insured depository institutions with total consolidated assets of less than $10 billion. The FDIC's proposed rulemaking would impose a new quarterly deposit insurance surcharge assessment, with a quarterly rate of 1.125 basis points, on all insured depository institutions with assets of $10 billion or more (including COBNA and CONA), in addition to regular quarterly deposit insurance assessments applicable to each insured depository institution. The surcharge would begin the quarter after the DIF reserve ratio first reaches or exceeds 1.15% (projected by the FDIC as likely to occur during the first

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quarter of 2016) and would continue until the reserve ratio first reaches or exceeds 1.35%, but no later than the fourth quarter of 2018. As proposed, the surcharge is expected to be partially offset by lower FDIC assessment rates, which will be in effect once the DIF reserve ratio reaches 1.15%. The potential impact on COBNA and CONA is dependent upon the duration, rate and structure of the FDIC surcharge in the final rule, which has not yet been issued.

Source of Strength and Liability for Commonly-Controlled Institutions

Under the regulations issued by the Federal Reserve, a BHC must serve as a source of financial and managerial strength to its subsidiary banks (the so-called "source of strength doctrine"). The Dodd-Frank Act codified the source of strength doctrine, directing the Federal Reserve to require BHCs to serve as a source of financial strength to its subsidiary banks.

Under the "cross-guarantee" provision of the Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA"), insured depository institutions such as the Banks may be liable to the FDIC with respect to any loss incurred, or reasonably anticipated to be incurred, by the FDIC in connection with the default of, or FDIC assistance to, any commonly controlled insured depository institution. The Banks are commonly controlled within the meaning of the FIRREA cross-guarantee provision.

FDIC Orderly Liquidation Authority

The Dodd-Frank Act provides the FDIC with liquidation authority that may be used to liquidate nonbank financial companies and BHCs if the Treasury Secretary, in consultation with the President and based on the recommendation of the Federal Reserve and another federal agency, determines that doing so is necessary, among other criteria, to mitigate serious adverse effects on U.S. financial stability. Upon such a determination, the FDIC would be appointed receiver and must liquidate the company in a way that mitigates significant risks to financial stability and minimizes moral hazard. The costs of a liquidation of a financial company would be borne by shareholders and unsecured creditors and then, if necessary, by risk-based assessments on large financial companies. The FDIC has issued rules implementing certain provisions of its liquidation authority and may issue additional rules in the future. In November 2015, the Federal Reserve proposed rules designed to promote U.S. financial stability and orderly liquidity authority by requiring U.S. BHCs identified as G-SIBs to maintain outstanding a minimum amount of loss absorbing instruments, including a minimum amount of unsecured long-term debt, and related buffer. Capital One would not be subject to this requirement as proposed.

Regulation of International Business by Non-U.S. Authorities

COBNA is subject to regulation in foreign jurisdictions where it operates, currently in the United Kingdom and Canada.

United Kingdom

In the United Kingdom, COBNA operates through COEP, which was established in 2000 and is an authorized payment institution regulated by the Financial Conduct Authority ("FCA") under the Payment Services Regulations 2009 and the Financial Services and Markets Act 2000. COEP's indirect parent, Capital One Global Corporation, is wholly-owned by COBNA and is subject to regulation by the Federal Reserve as an "agreement corporation" under the Federal Reserve's Regulation K.

Over the past few years the U.K. government has enacted significant changes to the framework of financial services regulation. As part of these changes, in April 2013, the Financial Services Authority ("FSA") was split into a new Prudential Regulatory Authority ("PRA") and the FCA, with the FCA, rather than the PRA, regulating COEP. In April 2014, the FCA took over regulation of the U.K. consumer credit regime previously regulated by the Office of Fair Trading. The FCA's new regulatory purview includes credit card lending activities. The FCA established a new Consumer Credit Sourcebook based on the existing regulatory regime which came into full effect on September 30, 2014. COEP, in common with other market participants, currently operates under certain "interim" permissions of FCA and COEP applied for related "full" permissions in October 2015 (with such full permissions anticipated to be granted during 2016).

Regulatory focus on Payment Protection Insurance ("PPI") complaint handling has continued as PPI continues to be a key driver of consumer complaints to the Financial Ombudsman Service ("FOS"). In January 2015, FCA announced it would gather evidence on current trends in PPI complaints to assess whether further interventions were required. In

May 2015, the FCA also announced that it was considering whether further rules and/or guidance were required to deal with the impact of the decision in the case of Plevin v. Paragon Personal Finance to the effect that failure to disclose the amount of commission included in the price of the single premium PPI sold to the plaintiff created an unfair relationship between the lender and the borrower under section 140A of the Consumer Credit Act 1974. On November 26, 2015, the FCA launched a consultation on proposed new rules relating to PPI

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complaint handling, including the introduction of a 2-year deadline by which consumers would need to make their PPI complaints or else lose their right to have them assessed by firms or by the FOS.

COEP is a party to the Sentinel Card Protection ("SCP") redress scheme which enables customers who bought SCP provided by Affinion International Limited to seek compensation. In August 2015 the redress scheme became effective with a general claims bar date of March 18, 2016, other than for exceptional circumstances. The claims bar date for exceptional circumstances is September 18, 2016. The redress scheme relating to Card Protection Plan ("CPP") insurance, which enabled customers who bought card protection insurance with CPP to seek compensation, has now come to an end.

Canada

In Canada, COBNA operates as an authorized foreign bank pursuant to the Bank Act (Canada) ("Bank Act") and is permitted to conduct its credit card business in Canada through its Canadian branch, Capital One Bank (Canada Branch) ("Capital One Canada"). The primary regulator of Capital One Canada is the Office of the Superintendent of Financial Institutions Canada ("OSFI"). Other regulators include the Financial Consumer Agency of Canada ("FCAC"), the Office of the Privacy Commissioner of Canada, and the Financial Transactions and Reports Analysis Centre of Canada. Capital One Canada is subject to regulation under various Canadian federal laws, including the Bank Act and its regulations, the Proceeds of Crime (Money Laundering) and Terrorist Financing Act and the Personal Information Protection and Electronic Documents Act.

There were two new significant developments described below that affect credit cards issued by federally regulated financial institutions in Canada, such as Capital One Canada. These changes could increase our operational and compliance costs and affect the types and terms of products that we offer in Canada.

In April 2015, the voluntary agreement to reduce interchange fees among the Canadian federal government, MasterCard Canada and Visa Canada came into effect. The agreement contains a commitment to reduce interchange fees for consumer credit cards to an average of 1.5% and will remain in effect for 5 years.

On September 19, 2014, the Supreme Court of Canada ("Court") released its decision in Bank of Montreal v. Marcotte. The Court found that certain provisions of Quebec provincial consumer protection legislation apply to credit cards issued by federally chartered banks. The broader implications of the applicability of provincial law to banks in Canada remain unclear.

COMPETITION

Each of our business segments operates in a highly competitive environment, and we face competition in all aspects of our business from numerous bank and non-bank providers of financial services.

Our Credit Card business competes with international, national, regional and local issuers of Visa and MasterCard credit cards, as well as with American Express®, Discover Card®, private-label card brands, and, to a certain extent, issuers of debit cards. In general, customers are attracted to credit card issuers largely on the basis of price, credit limit, reward programs and other product features.

Our Consumer Banking and Commercial Banking businesses compete with national, state and direct banks for deposits, commercial and auto loans, mortgages and trust accounts, as well as with savings and loan associations and credit unions for loans and deposits. Our competitors also include automotive finance companies, mortgage banking companies and other financial services providers that provide loans, deposits, and other similar services and products. In addition, we compete against non-depository institutions that are able to offer these products and services.

Securities firms and insurance companies that elect to become financial holding companies may acquire banks and other financial institutions. Combinations of this type could significantly change the competitive environment in which we conduct business. The financial services industry is also likely to become more competitive as further technological advances enable more companies to provide financial services. These technological advances may diminish the importance of depository institutions and other financial intermediaries in the transfer of funds between parties. In addition, competition among direct banks is intense because online banking provides customers the ability to rapidly deposit and withdraw funds and open and close accounts in favor of products and services offered by competitors.

Our businesses generally compete on the basis of the quality and range of their products and services, transaction execution, innovation and price. Competition varies based on the types of clients, customers, industries and geographies served. Our ability to compete depends, in part, on our ability to attract and retain our associates and on our reputation. In the current environment, customers are generally attracted to depository institutions that are perceived as stable, with solid liquidity and funding. We believe

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that we are able to compete effectively in our current markets. There can be no assurance, however, that our ability to market products and services successfully or to obtain adequate returns on our products and services will not be impacted by the nature of the competition that now exists or may later develop, or by the broader economic environment. For a discussion of the risks related to our competitive environment, please refer to "Part I—Item 1A. Risk Factors."

EMPLOYEES

A central part of our philosophy is to attract and retain highly capable staff. We had approximately 45,400 employees, whom we refer to as "associates," as of December 31, 2015. None of our associates are covered under a collective bargaining agreement, and management considers our associate relations to be satisfactory.

ADDITIONAL INFORMATION

Technology/Systems

We leverage information technology to achieve our business objectives and to develop and deliver products and services that satisfy our customers' needs. A key part of our strategic focus is the development and use of efficient, flexible computer and operational systems, such as cloud technology, to support complex marketing and account management strategies, the servicing of our customers, and the development of new and diversified products. We believe that the continued development and integration of these systems is an important part of our efforts to reduce costs, improve quality and provide faster, more flexible technology services. Consequently, we continuously review capabilities and develop or acquire systems, processes and competencies to meet our unique business requirements.

As part of our continuous efforts to review and improve our technologies, we may either develop such capabilities internally or rely on third-party outsourcers who have the ability to deliver technology that is of higher quality, lower cost, or both. We continue to rely on third-party outsourcers to help us deliver systems and operational infrastructure. These relationships include (but are not limited to): Total System Services Inc. ("TSYS") for processing services for our North American and U.K. portfolios of consumer and small business credit card accounts, and Fidelity Information Services ("FIS") for certain of our banking systems.

To protect our systems and technologies, we employ security, backup and recovery systems and generally require the same of our third-party service providers. In addition, we perform, or cause to be performed, a variety of vulnerability and penetration testing on the platforms, systems and applications used to provide our products and services in an effort to ensure that any attacks on these platforms, systems and applications are unlikely to succeed.

Intellectual Property

As part of our overall and ongoing strategy to protect and enhance our intellectual property, we rely on a variety of protections, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation and competition. We also undertake other measures to control access to and distribution of our other proprietary information. Despite these precautions, it may be possible for a third party to copy or otherwise obtain and use certain intellectual property or proprietary information without authorization. Our precautions may not prevent misappropriation or infringement of our intellectual property or proprietary information. In addition, our competitors and other third parties also file patent applications for innovations that are used in our industry. The ability of our competitors and other third parties to obtain such patents may adversely affect our ability to compete. Conversely, our ability to obtain such patents may increase our competitive advantage. There can be no assurance that we will be successful in such efforts, or that the ability of our competitors to obtain such patents may not adversely impact our financial results.

FORWARD-LOOKING STATEMENTS

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

To the extent that any such information is forward-looking, it is intended to fit within the safe harbor for forward-looking information provided by the Private Securities Litigation Reform Act of 1995.

Numerous factors could cause our actual results to differ materially from those described in such forward-looking statements, including, among other things:

- general economic and business conditions in the U.S., the U.K., Canada or our local markets, including conditions affecting employment levels, interest rates, collateral values, consumer income, credit worthiness and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses (including increases due to a worsening of general economic conditions in the credit environment), including the impact of inaccurate estimates or inadequate reserves;

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

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- other risk factors listed from time to time in reports that we file with the SEC.

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

Item 1A. Risk Factors

This section highlights specific risks that could affect our business. Although we have tried to discuss all material risks of which we are aware at the time this Report has been filed, other risks may prove to be important in the future, including those that are not currently ascertainable. In addition to the factors discussed elsewhere in this Report, other factors that could cause actual results to differ materially from our forward looking statements include:

General Economic and Market Risks

Changes And Instability In The Macroeconomic Environment May Adversely Affect Our Industry, Business, Results Of Operations And Financial Condition.

We offer a broad array of financial products and services to consumers, small businesses and commercial clients. We market our credit card products on a national basis throughout the United States, Canada and the United Kingdom and offer banking and other services in many regions within the United States. A prolonged period of slow economic growth or a significant deterioration in economic conditions in the United States or one of these countries could have a material adverse effect on our financial condition and results of operations as customers default on their loans or maintain lower deposit levels or, in the case of credit card accounts, carry lower balances and reduce credit card purchase activity.

Although certain economic conditions in the United States have shown signs of improvement in recent years, the macroeconomic environment remains unstable and uneven, and the U.S. economy remains susceptible to global events and volatility. Geopolitical matters, including international political unrest or disturbances, continued concerns over energy prices and economic instability or recession in certain regions, may impact the stability of financial markets and the U.S. economy.

Some of the risks we may face in connection with adverse changes and instability in macroeconomic environment include the following:

- Payment patterns may change, causing increases in delinquencies and default rates, which could have a negative impact on our results of operations. In addition, changes in consumer confidence levels and behavior, including decreased consumer spending, lower demand for credit and a shift in consumer payment behavior towards avoiding late fees, finance charges and other fees, could have a negative impact on our results of operations.
- Increases in bankruptcies could cause increases in our charge-off rates, which could have a negative impact on our results of operations.
- Our ability to recover debt that we have previously charged-off may be limited, which could have a negative impact on our results of operations.
- The process and models we use to estimate our allowance for loan and lease losses may become less reliable if actual losses diverge from the projections of our models as a result of changes in customer behavior, volatile economic conditions or other unexpected variations in key inputs and assumptions. As a result, our estimates for credit losses may become increasingly subject to management's judgment and high levels of volatility over short periods of time, which could negatively impact our results of operations. See "There Are Risks Resulting From The Extensive Use Of Models In Our Business."
- Risks associated with financial market instability and volatility could cause a material adverse effect on our liquidity and our funding costs. For example, increases in interest rates and our credit spreads could negatively impact our results of operations.
- Our ability to borrow from other financial institutions or to engage in funding transactions on favorable terms or at all could be adversely affected by disruptions in the capital markets or other events, including actions by rating agencies and

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deteriorating investor expectations, which could limit our access to funding. The interest rates that we pay on the securities we have issued are also influenced by, among other things, applicable credit ratings from recognized rating agencies. A downgrade to any of these credit ratings could affect our ability to access the capital markets, increase our borrowing costs and have a negative impact on our results of operations. Increased charge-offs, rising London Interbank Offering Rate ("LIBOR") and other events may cause our securitization transactions to amortize earlier than scheduled, which could accelerate our need for additional funding from other sources.

- An inability to accept or maintain deposits or to obtain other sources of funding could materially affect our ability to fund our business and our liquidity position. Many other financial institutions have also increased their reliance on deposit funding and, as such, we expect continued competition in the deposit markets. We cannot predict how this competition will affect our costs. If we are required to offer higher interest rates to attract or maintain deposits, our funding costs will be adversely impacted.
- Both shorter-term and longer-term interest rates remain below historical averages, as well as the yield curve, which is flatter than its historical average. A flat yield curve combined with low interest rates generally leads to lower revenue and reduced margins because it would limit our opportunity to increase the spread between asset yields and funding costs. Sustained periods of time with a flat yield curve coupled with low interest rates could have a material adverse effect on our earnings and our net interest margin.
- A low interest rate environment increases our exposure to prepayment risk in our mortgage portfolio and the mortgage-backed securities in our investment portfolio. Increased prepayments, refinancing or other factors that impact loan balances could reduce expected revenue associated with mortgage assets and could also lead to a reduction in the value of our mortgage servicing rights, which could have a negative impact on our financial results. In addition, the Federal Reserve's recent decision to raise short-term interest rates will increase debt service requirements for some of our borrowers and may adversely affect those borrowers' ability to pay as contractually obligated, which could result in additional delinquencies or charge-offs and negatively impact our results of operations.

Regulatory Risk

Compliance With New And Existing Laws, Regulations And Regulatory Expectations May Increase Our Costs, Reduce Our Revenue, Limit Our Ability To Pursue Business Opportunities, And Increase Compliance Challenges.

Legislation and regulation with respect to the financial services industry has increased in recent years, and we expect that oversight of our business will continue to expand in scope and complexity. A wide and increasing array of banking and consumer lending laws apply to almost every aspect of our business. Failure to comply with these laws and regulations could result in financial, structural and operational penalties, including significant fines and criminal sanctions, and could result in negative publicity or damage to our reputation with regulators or the public. In addition, establishing systems and processes to achieve compliance with these laws and regulations may increase our costs and limit our ability to pursue certain business opportunities.

We are subject to heightened regulatory oversight by the federal banking regulators to ensure that we build systems and processes that are commensurate with the nature of our business and that meet the heightened risk management and enhanced prudential standards issued by our regulators. For example, over the last several years, state and federal regulators have focused on compliance with the Bank Secrecy Act and anti-money laundering laws, data integrity and security, use of service providers, fair lending and other consumer protection issues. In July 2015, Capital One entered into a consent order with the OCC to address concerns about our anti-money laundering ("AML") program ("AML Program") emanating from our former Check Cashing Group within the Commercial Banking business. We have made substantial progress in taking the steps and making the improvements required by the OCC consent order. We expect heightened oversight of our AML Program will continue for the foreseeable future.

The Dodd-Frank Act, other regulatory reforms and implementing regulations have increased our need to build new compliance processes and infrastructure and to otherwise enhance our risk management throughout all aspects of our business. The cumulative impact of these changes also includes higher expectations for the amount of capital and liquidity we must maintain, as discussed in more detail below under the heading "We May Not Be Able To Maintain Adequate Capital Or Liquidity Levels, Which Could Have A Negative Impact On Our Financial Results And Our

Ability To Return Capital To Our Shareholders," and higher operational costs, which may further increase as regulators continue to implement such reforms. U.S. government agencies charged with adopting and interpreting laws, rules and regulations, including under the Dodd-Frank Act, may do so in an unforeseen manner, including in ways that potentially expand the reach of the laws, rules or regulations more than initially contemplated or currently anticipated.

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We have a large number of customer accounts in our credit card and auto lending businesses and we have made the strategic choice to originate and service subprime credit cards and auto loans which typically have higher delinquencies and charge-offs than prime customers. Accordingly, we have significant involvement with credit bureau reporting and the collection and recovery of delinquent and charged-off debt, primarily through customer communications, the filing of litigation against customers in default, the periodic sale of charged-off debt and vehicle repossession. The banking industry is subject to enhanced legal and regulatory scrutiny regarding credit bureau reporting and debt collection practices from regulators, courts and legislators. Any future changes to our business practices in these areas, including our debt collection practices, whether mandated by regulators, courts, legislators or otherwise, or any legal liabilities resulting from our business practices, including our debt collection practices, could have a material adverse impact on our financial condition.

The legislative and regulatory environment is beyond our control, may change rapidly and unpredictably and may negatively influence our revenue, costs, earnings, growth, liquidity and capital levels. In addition, some rules and regulations may be subject to litigation or other challenges that delay or modify their implementation and impact on us. Certain laws and regulations, and any interpretations and applications with respect thereto, may benefit consumers, borrowers and depositors, but not stockholders. Our success depends on our ability to maintain compliance with both existing and new laws and regulations. For a description of the material laws and regulations to which we are subject, please refer to “Part I—Item 1. Business—Supervision and Regulation.”

Credit Risk

We May Experience Increased Delinquencies, Credit Losses, Inaccurate Estimates, And Inadequate Reserves.

Like other lenders, we face the risk that our customers will not repay their loans. Rising losses or leading indicators of rising losses (such as higher delinquencies, higher rates of non-performing loans, higher bankruptcy rates, lower collateral values or elevated unemployment rates) may require us to increase our allowance for loan and lease losses, which may degrade our profitability if we are unable to raise revenue or reduce costs to compensate for higher losses. In particular, we face the following risks in this area:

- Missed Payments: Our customers may miss payments. Loan charge-offs (including from bankruptcies) are generally preceded by missed payments or other indications of worsening financial condition for our customers. Customers are more likely to miss payments during an economic downturn or prolonged periods of slow economic growth. In addition, we face the risk that consumer and commercial customer behavior may change (for example, an increase in the unwillingness or inability of customers to repay debt), causing a long-term rise in delinquencies and charge-offs.
- Estimates of Inherent Losses: The credit quality of our portfolio can have a significant impact on our earnings. We allow for and reserve against credit risks based on our assessment of credit losses inherent in our loan portfolios. This process, which is critical to our financial results and condition, requires complex judgments, including forecasts of economic conditions. We may underestimate our inherent losses and fail to hold a loan loss allowance sufficient to account for these losses. Incorrect assumptions could lead to material underestimations of inherent losses and inadequate allowance for loan and lease losses. In cases where we modify a loan, if the modifications do not perform as anticipated we may be required to build additional allowance on these loans. The build or release of allowances impacts our current financial results.
- Underwriting: Our ability to assess the credit worthiness of our customers may diminish, which could result in an increase in our credit losses and a deterioration of our returns. See “Our Risk Management Strategies May Not Be Fully Effective In Mitigating Our Risk Exposures In All Market Environments Or Against All Types Of Risk.”
- Business Mix: We engage in a diverse mix of businesses with a broad range of potential credit exposure. Our business mix could change in ways that could adversely affect the credit quality of our portfolio. Because we originate a relatively greater proportion of consumer loans in our loan portfolio compared to other large bank peers and originate both prime and subprime credit card accounts and auto loans, we may experience higher delinquencies and a greater number of accounts charging off compared to other large bank peers, which could result in increased credit losses, operating costs and regulatory scrutiny.
- Charge-off Recognition / Allowance for Loan and Lease Losses: The rules governing the allowance for loan and lease losses could change. We account for the allowance for loan and lease losses according to accounting and regulatory

guidelines and rules. These guidelines and rules, including Financial Accounting Standards Board ("FASB") standards and the Federal Financial Institutions Examination Council ("FFIEC") Account Management Guidance, could require changes in our account management or loss allowance practices and cause our charge-offs and/or allowance for loan and

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lease losses to increase for reasons unrelated to the underlying performance of our portfolio. Such changes could have an adverse impact on our financial condition or results of operation.

- Industry Developments: Our charge-off and delinquency rates may be negatively impacted by industry developments, including new regulations applicable to our industry.
- Collateral: The collateral we have on secured loans could be insufficient to compensate us for loan losses. When customers default on their secured loans, we attempt to recover collateral where permissible and appropriate. However, the value of the collateral may not be sufficient to compensate us for the amount of the unpaid loan, and we may be unsuccessful in recovering the remaining balance from our customers. Decreases in real estate values adversely affect the collateral value for our commercial lending and home loan activities, while the auto business is similarly exposed to collateral risks arising from the auction markets that determine used car prices. Therefore, the recovery of such property could be insufficient to compensate us for the value of these loans. Borrowers may be less likely to continue making payments on loans if the value of the property used as collateral for the loan is less than what the borrower owes, even if the borrower is still financially able to make the payments. Trends in home prices are a driver of credit costs in our home loan business as they impact both the probability of default and the loss severity of defaults. Additionally, the potential volatility in the number of defaulted and modified loans from changes in home prices can create material impacts on the servicing costs of the business, fluctuations in credit marks and profitability in acquired portfolios and volatility in mortgage servicing rights valuations. Although home prices have generally appreciated recently, the slow economic recovery, shifts in monetary policy and potentially diminishing demands from investors could threaten or limit the recovery. In our auto business, if vehicle prices experience declines, we could be adversely affected. For example, business and economic conditions that negatively affect household incomes, housing prices, and consumer behavior related to our businesses could decrease (i) the demand for new and used vehicles and (ii) the value of the collateral underlying our portfolio of auto loans, which could cause the number of consumers who become delinquent or default on their loans to increase.
- Geographic and Industry Concentration: Although our consumer lending is geographically diversified, approximately 31% of our commercial loan portfolio is concentrated in the tri-state area of New York, New Jersey and Connecticut. The regional economic conditions in the tri-state area affect the demand for our commercial products and services as well as the ability of our customers to repay their commercial loans and the value of the collateral securing these loans. An economic downturn or prolonged period of slow economic growth in, or a catastrophic event that disproportionately affects, the tri-state area could have a material adverse effect on the performance of our commercial loan portfolio and our results of operations. In addition, our Commercial Banking strategy includes an industry-specific focus. If any of the industries that we focus in experience changes, we may experience increased credit losses and our results of operations could be adversely impacted. For example, as of December 31, 2015, energy-related loan balances represented approximately 5% of our total commercial loan portfolio. This amount is comprised of loans to commercial entities in the energy industry, such as exploration and production, oil field services, and pipeline transportation of gas and crude oil, as well as loans to entities in industries that are indirectly impacted by energy prices, such as petroleum wholesalers, oil and gas equipment manufacturing, air transportation, and petroleum bulk stations and terminals. In recent years, oil prices have been declining, which has had an adverse effect on many of the borrowers in this portfolio and on the value of the collateral securing our loans to these borrowers, which could impair their ability to service loans outstanding to them and/or reduce demand for loans. If energy-related industries or any of the other industries that we focus on experience adverse changes, we may experience increased credit losses and our results of operations could be adversely impacted.

We May Experience Increased Losses And Inadequate Reserves Associated With Mortgage Repurchases And Indemnification Obligations.

Certain of our subsidiaries, including GreenPoint Mortgage Funding, Inc. (“GreenPoint”), Capital One Home Loans, LLC and Capital One, N.A., as successor to Chevy Chase Bank (“CCB”), may be required to repurchase mortgage loans that have been sold to investors in the event there are breaches of certain representations and warranties contained within the sales agreements. We may be required to repurchase mortgage loans that we sell to investors in the event that there was improper underwriting or fraud or in the event that the loans become delinquent shortly after they are originated. These subsidiaries also may be required to indemnify certain purchasers and others against losses they incur in the event of breaches of representations and warranties and in various other circumstances, including securities fraud or other public disclosure-related claims, and the amount of such losses could exceed the repurchase amount of the related loans. Consequently, we may be exposed to credit risk associated with sold loans.

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We have established reserves in our consolidated financial statements for potential losses that are considered to be both probable and reasonably estimable related to the mortgage loans sold by our originating subsidiaries. The adequacy of the reserve and the ultimate amount of losses incurred will depend on, among other things, the actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rate of claimants, developments in litigation and the regulatory environment related to us and the industry, actual recoveries on the collateral, and macroeconomic conditions (including unemployment levels and housing prices). Due to uncertainties relating to these factors, there can be no assurance that our reserves will be adequate or that the total amount of losses incurred will not have a material adverse effect upon our financial condition or results of operations.

In addition to the subsidiaries discussed above, we originate, sell and service commercial mortgage loans that meet underwriting guidelines established by GSEs. We are required to meet minimum collateral requirements and share a limited portion of the risk of loss during the remaining terms of these loans. The GSEs may change their collateral requirements for these loans in the future and also increase our loss-sharing obligations if the loans do not meet specific underwriting criteria or default within certain time periods following their sale to the GSEs. We cannot assure you that our liability associated with these loss-sharing agreements will be sufficient to cover any future losses from these loans. We may also be required to share additional losses with GSEs if loan defaults increase, which could impact our results of operations and liquidity.

For additional information related to our mortgage loan repurchase and indemnification obligations and related reserves and our estimate of the reasonably possible future losses from representation and warranty claims beyond the current accrual levels, as well as our loss-sharing agreements, as of December 31, 2015, see "Note 21—Commitments, Contingencies, Guarantees and Others."

Capital and Liquidity Risk

We May Not Be Able To Maintain Adequate Capital Or Liquidity Levels, Which Could Have A Negative Impact On Our Financial Results And Our Ability To Return Capital To Our Shareholders.

As a result of the Dodd-Frank Act and the U.S. implementation of international accords, financial institutions are becoming subject to new and increased capital and liquidity requirements. Although U.S. regulators have finalized regulations for some of these requirements, continued uncertainty remains as to the form additional new requirements will take or how and when they will apply to us. As a result, it is possible that we could be required to increase our capital and/or liquidity levels above the levels assumed in our current financial plans. These new requirements could have a negative impact on our ability to lend, grow deposit balances or make acquisitions and limit our ability to make most capital distributions. Higher capital levels also lower our return on equity.

In addition, as described further below, for regulatory capital purposes we entered parallel run on January 1, 2015, which must last a minimum of four quarters. We will become subject to the Basel III Advanced Approaches framework for purposes of determining our regulatory capital requirements once we receive regulatory approval to do so, although the exact timing of when such approval may be granted is uncertain. Although we have current estimates of risk-weighted asset calculations under that framework, there remains uncertainty around future regulatory interpretations of certain aspects of those calculations. Therefore, we cannot assure you that our current estimates will be correct, and we may need to hold significantly more regulatory capital in the future than we currently estimate to maintain a given capital ratio.

In September 2014, the Federal Banking Agencies issued the Final LCR Rule. See "Part I—Item 1. Business—Supervision and Regulation" for further details regarding the Final LCR Rule. There remains uncertainty as to the impact of daily compliance with the LCR on how we manage our business. See "Note 13—Regulatory and Capital Adequacy" and "Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfers of Funds" for additional information regarding recent developments in capital and liquidity requirements.

We consider various factors in the management of capital, including the impact of stress on our capital levels, as determined by both our internal modeling and the Federal Reserve's modeling of our capital position in CCAR. In recent stress test cycles, including CCAR, we have observed a large difference between our estimates of our capital levels under stress and the Federal Reserve's estimates of our capital levels under stress. In the current stress test cycle, including CCAR, the difference could be larger because we expect the Federal Reserve to continue to use its own assumptions in modeling results. Therefore, although our estimated capital levels under stress suggest that we have substantial capacity to return capital to shareholders and remain well capitalized under stress, it is possible that the Federal Reserve's modeling may result in a materially lower capacity to return capital to shareholders than our estimates. See "Part I—Item 1. Business—Supervision and Regulation" for additional information.

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Operational Risk

We Face Risks Related To Our Operational, Technological And Organizational Infrastructure.

Our ability to grow and compete is dependent on our ability to build or acquire necessary operational, technological and organizational infrastructure or adapt to technological advances involving such infrastructure, which can be a challenge due to the fast pace of digital transformation and advances. We are embedding technology, data, and software development deeply into our business model and how we work.

Similar to other large corporations, we are exposed to operational risk that can manifest itself in many ways, such as errors related to failed or inadequate processes, inaccurate models, faulty or disabled computer systems, fraud by employees or persons outside of our company and exposure to external events. In addition, we are heavily dependent on the strength and capability of our technology systems which we use to manage our internal financial and other systems, interface with our customers and develop and implement effective marketing campaigns. We also depend on models to measure risks, estimate certain financial values, determine pricing on certain products, assess capital adequacy and calculate regulatory capital levels. If we implement or design our models poorly or use inaccurate assumptions in our models, business decisions based on the output of the models may be adversely affected. See "There Are Risks Resulting From The Extensive Use Of Models In Our Business."

In addition, our businesses are dependent on our ability to process, record and monitor a large number of complex transactions. If any of our financial, accounting, or other data processing systems fail or have other significant shortcomings, our business and reputation could be materially adversely affected. We may also be subject to disruptions of our operating systems arising from events that are wholly or partially beyond our control, which may include, for example, computer viruses or electrical or telecommunications outages, cyber-attacks, including Distributed Denial of Service ("DDOS") attacks discussed below, natural disasters, other damage to property or physical assets or events arising from local or larger scale politics, including terrorist acts. Any of these occurrences could diminish our ability to operate our businesses, service customer accounts, and protect customers' information, or result in potential liability to customers, reputational damage, regulatory intervention and customers' loss of confidence in our businesses, any of which could result in a material adverse effect. We also rely on the business infrastructure and systems of third parties with which we do business and to whom we outsource the maintenance and development of operational and technological functionality. System breakdowns or failures, adverse changes to financial condition, bankruptcy or other adverse conditions affecting the businesses of such third parties, including our vendors and other service providers, could have a material adverse effect on our business and reputation. Thus, any increase in the amount of our infrastructure that we outsource to third parties may increase our risk exposure.

Our ability to develop and deliver new products that meet the needs of our existing customers and attract new ones and to run our business in compliance with applicable laws and regulations depends on the functionality and reliability of our operational and technology systems. Any disruptions, failures or inaccuracies of our operational and technology systems and models, including those associated with improvements or modifications to such systems and models, could cause us to be unable to market and manage our products and services, manage our risk or to report our financial results in a timely and accurate manner, all of which could have a negative impact on our results of operations. In addition, our ongoing investments in infrastructure, which are necessary to maintain a competitive business, integrate acquisitions and establish scalable operations, may increase our expenses. As our business develops, changes or expands, additional expenses can arise as a result of a reevaluation of business strategies, management of outsourced services, asset purchases or other acquisitions, structural reorganization, compliance with new laws or regulations or the integration of newly acquired businesses. If we are unable to successfully manage our expenses, our financial results will be negatively affected.

We Could Incur Increased Costs Or Reductions In Revenue Or Suffer Reputational Damage And Business Disruptions In The Event Of The Theft, Loss Or Misuse Of Information, Including As A Result Of A Cyber-Attack.

Our products and services involve the gathering, management, processing, storage and transmission of sensitive and confidential information regarding our customers and their accounts, our employees and other third parties with which we do business. Our ability to provide such products and services, many of which are web-based, depends upon the management and safeguarding of information, software, methodologies and business secrets. To provide these products and services, we use information systems and infrastructure, including digital technologies, computer and email systems, software, networks, and other web-based technologies, that we and third-party service providers operate. We also have arrangements in place with third parties through which we share and receive information about their customers who are or may become our customers.

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Like other financial services firms, technologies, systems, networks and devices of Capital One or our customers, employees or other third parties with whom we interact continue to be the subject of attempted unauthorized access, mishandling or misuse of information, computer viruses or malware, cyber-attacks designed to obtain confidential information, destroy data, disrupt or degrade service, sabotage systems or cause other damage, denial of service attacks and other events. These threats may derive from human error, fraud or malice on the part of our employees or third parties or may result from accidental technological failure. Any of these parties may also attempt to fraudulently induce employees, customers, or other third-party users of our systems to disclose sensitive information in order to gain access to our data or that of our customers or third parties with whom we interact. Further, cyber and information security risks for large financial institutions like us have generally increased in recent years in part because of the proliferation of new technologies, the use of the Internet and telecommunications technologies to conduct financial transactions and the increased sophistication and activities of organized crime, perpetrators of fraud, hackers, terrorists, activists, formal and informal instrumentalities of foreign governments and other external parties. In addition, to access our products and services, our customers may use computers, smartphones, tablet PCs and other mobile devices that are beyond our security control systems.

If our information systems or infrastructure or those of our customers, partners or other market participants experience a significant disruption or breach, it could lead, depending on the nature of the disruption or breach, to the unauthorized access to and release, gathering, monitoring, misuse, loss or destruction of our confidential information or personal or confidential information of our customers, employees or other third parties in our possession. Further, such disruption or breach could also result in unauthorized access to our proprietary information, software, methodologies and business secrets and in unauthorized transactions in Capital One accounts or unauthorized access to personal or confidential information maintained by those entities.

As a financial institution, we are subject to and examined for compliance with an array of data protection laws, regulations and guidance, as well as to our own internal privacy and information security policies and programs. However, because the methods and techniques employed by perpetrators of fraud and others to attack, disable, degrade or sabotage platforms, systems and applications change frequently, are increasingly sophisticated and often are not fully recognized or understood until after they have occurred, we and our third-party service providers and partners may be unable to anticipate certain attack methods in order to implement effective preventative measures or mitigate or remediate the damages caused in a timely manner. We may also be unable to hire and develop talent capable of detecting, mitigating or remediating these risks. Although we believe we have a robust suite of authentication and layered information security controls, including our cyber threat analytics, data encryption and tokenization technologies, anti-malware defenses and vulnerability management program, any one or combination of these controls could fail to detect, mitigate or remediate these risks in a timely manner.

A disruption or breach such as those discussed above could result in significant legal and financial exposure, regulatory intervention, remediation costs, card reissuance, supervisory liability, damage to our reputation or loss of confidence in the security of our systems, products and services that could adversely affect our business. We and other U.S. financial services providers continue to be targeted with evolving and adaptive cybersecurity threats from sophisticated third parties. Although we have not experienced any material losses relating to cyber incidents, there can be no assurance that unauthorized access or cyber incidents will not occur or that we will not suffer such losses in the future. Unauthorized access or cyber incidents could occur more frequently and on a more significant scale. If future attacks like these are successful or if customers are unable to access their accounts online for other reasons, it could adversely impact our ability to service customer accounts or loans, complete financial transactions for our customers or otherwise operate any of our businesses or services. In addition, a breach or attack affecting one of our third-party service providers or partners could harm our business even if we do not control the service that is attacked.

In addition, the increasing prevalence and the evolution of cyber-attacks and other efforts to breach or disrupt our systems or those of our partners, retailers or other market participants has led, and will likely continue to lead, to increased costs to us with respect to preventing, mitigating and remediating these risks, as well as any related attempted fraud. We may be required to expend significant additional resources to continue to modify or strengthen our protective security measures, investigate and remediate any vulnerabilities of our information systems and infrastructure or invest in new technology designed to mitigate security risks. For example, various retailers have continued to be victims of cyber-attacks in which customer data, including debit and credit card information, was obtained. In these situations, we incur a variety of costs, including those associated with replacing the compromised cards and remediating fraudulent transaction activity. Further, successful cyber-attacks at other large financial institutions or other market participants, whether or not we are impacted, could lead to a general loss of customer confidence in financial institutions that could negatively affect us, including harming the market perception of the effectiveness of our security measures or the financial system in general which could result in reduced use of our financial products. Though we have insurance against some cyber-risks and attacks, it may not be sufficient to offset the impact of a material loss event.

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Legal Risk
Our Businesses Are Subject To The Risk Of Increased Litigation, Government Investigations And Regulatory Enforcement.
Our businesses are subject to increased litigation, government investigations and other regulatory enforcement risks as a result of a number of factors and from various sources, including the highly regulated nature of the financial services industry, the focus of state and federal prosecutors on banks and the financial services industry, the structure of the credit card industry and business practices in the mortgage lending business. Given the inherent uncertainties involved in litigation, government investigations, and regulatory enforcement decisions, and the very large or indeterminate damages sought in some matters asserted against us, there can be significant uncertainty as to the ultimate liability we may incur from these kinds of matters. The finding, or even the assertion, of substantial legal liability against us could have a material adverse effect on our business and financial condition and could cause significant reputational harm to us, which could seriously harm our business.
In addition, financial institutions, including us, have faced significant regulatory scrutiny over the past several years, which has increasingly led to public enforcement actions. We and our subsidiaries are subject to comprehensive regulation and periodic examination by the Federal Reserve, the SEC, OCC, FDIC and CFPB. We have been subject to enforcement actions by many of these and other regulators and may continue to be involved in such actions, including governmental inquiries, investigations and enforcement proceedings, including by the Department of Justice. We expect that regulators and governmental enforcement bodies will continue taking formal enforcement actions against financial institutions in addition to addressing supervisory concerns through non-public supervisory actions or findings, which could involve restrictions on our activities, among other limitations that could adversely affect our business. Litigation, government investigations and other regulatory actions generally could subject us to significant fines, increased expenses, restrictions on our activities and damage to our reputation and our brand, and could adversely affect our business, financial condition and results of operations.
Other Business Risks
We Face Intense Competition In All Of Our Markets.
We operate in a highly competitive environment, both in making loans and attracting deposits, and we expect competitive conditions to continue to intensify with respect to most of our products. We compete on the basis of the rates we pay on deposits and the rates and other terms we charge on the loans we originate or purchase, as well as the quality and range of our customer service, products, innovation and experience. Price competition for loans might result in origination of fewer loans or earning less on our loans. Some of our competitors are substantially larger than we are, which may give those competitors advantages, including a more diversified product and customer base, the ability to reach out to more customers and potential customers, operational efficiencies, more versatile technology platforms, the ability to innovate faster, broad-based local distribution capabilities, lower-cost funding and larger existing branch networks. In addition, some of our competitors, including new and emerging competitors in the digital and mobile payments space, are not subject to the same regulatory requirements or legislative scrutiny to which we are subject, which also could place us at a competitive disadvantage. Many of our competitors are also focusing on cross-selling their products and developing new products or technologies, which could affect our ability to maintain or grow existing customer relationships or require us to offer lower interest rates or fees on our lending products or higher interest rates on deposits. This increasingly competitive environment is primarily a result of changes in regulation, changes in technology and product delivery systems, as well as the consolidation of financial service providers, all of which may affect our customers' expectations and demands.
As of December 31, 2015, we operate the largest online direct banking institution in the U.S. by deposits. While direct banking represents a significant opportunity to attract new customers that value greater and more flexible access to banking services at reduced costs, we face strong competition in the direct banking market. Aggressive pricing throughout the industry may adversely affect the retention of existing balances and the cost-efficient acquisition of new deposit funds and may affect our growth and profitability. In addition, the effects of a competitive environment may be exacerbated by the flexibility of direct banking and the increasing financial and technological sophistication of our customer base. Customers could also close their online accounts or reduce balances or deposits in favor of

products and services offered by competitors for other reasons. These shifts, which could be rapid, could result from general dissatisfaction with our products or services, including concerns over pricing, online security or our reputation.

We have expanded our credit card partnership business over the past several years with the additions of a number of credit card partnerships. The market for key business partners, especially in the credit card business, is very competitive, and we may not be able to grow or maintain these partner relationships. We face the risk that we could lose partner relationships, even after we have invested significant resources, time and expense into acquiring and developing the relationships. The loss of any of our business partners could have a negative impact on our results of operations, including lower returns, excess operating expense and excess funding capacity.

In addition, the global payments industry is highly competitive and is rapidly changing and increasingly subject to regulatory scrutiny. We compete with all forms of payments, including a variety of new and evolving alternative payment mechanisms, systems and products, such as aggregators and web-based and wireless payment platforms or technologies, digital currencies, prepaid systems and payment services targeting users of social networks and online gaming (including those offering billing to the consumer's mobile phone account), as well as consortia of merchants that are expected to combine payment systems to reduce interchange and other costs. If we are unable to continue to keep pace with innovation, our business and results of operations could be adversely affected.

In such a competitive environment, we may lose entire accounts or may lose account balances to competing firms, or we may find it more costly to maintain our existing customer base. Customer attrition from any or all of our lending products, together with any lowering of interest rates or fees that we might implement to retain customers, could reduce our revenues and therefore our earnings. Similarly, unexpected customer attrition from our deposit products, in addition to an increase in rates or services that we may offer to retain those deposits, may increase our expenses and therefore reduce our earnings.

Our Business, Financial Condition And Results Of Operations May Be Adversely Affected By Merchants' Increasing Focus On The Fees Charged By Credit Card Networks And By Regulation And Legislation Impacting Such Fees.

Credit card interchange fees are generally one of the largest components of the costs that merchants pay in connection with the acceptance of credit cards and are a meaningful source of revenue for our credit card businesses. Interchange fees are the subject of significant and intense global legal, regulatory and legislative focus, and the resulting decisions, regulations and legislation may have a material adverse impact on our overall business, financial condition and results of operations.

Regulators and legislative bodies in a number of countries are seeking to reduce credit card interchange fees through legislation, competition-related regulatory proceedings, central bank regulation and or litigation. Interchange reimbursement rates in the United States are set by credit card networks such as MasterCard and Visa. In some jurisdictions, such as Canada and certain countries in the European Union, interchange fees and related practices are subject to regulatory activity that have limited the ability of certain networks to establish default rates, including in some cases imposing caps on permissible interchange fees and we have already experienced these impacts in our International Card business. Legislators and regulators around the world are aware of each other's approaches to the regulation of the payments industry. Consequently, a development in one country, state or region may influence regulatory approaches in another, such as our primary market, the United States.

In addition to this regulatory activity, merchants are also seeking avenues to reduce interchange fees. During the past few years, merchants and their trade groups have filed numerous lawsuits against Visa, MasterCard, American Express and their card-issuing banks, claiming that their practices toward merchants, including interchange and similar fees, violate federal antitrust laws. In 2005, a number of entities filed antitrust lawsuits against MasterCard and Visa and several member banks, including our subsidiaries and us, alleging among other things, that the defendants conspired to fix the level of interchange fees. In December 2013, the U.S. District Court for the Eastern District of New York granted final approval of the proposed class settlement. See "Note 21—Commitments, Contingencies, Guarantees and Others" for further details. Among other results of the settlement, merchants are now entitled to join together to negotiate lower interchange fees. Some major retailers may have sufficient bargaining power to independently negotiate lower interchange fees with MasterCard and Visa, which could, in turn, result in lower interchange fees for us when our cardholders undertake purchase transactions with these retailers. These and other merchants also continue to lobby aggressively for caps and restrictions on interchange fees and there can be no assurance that their efforts will not be successful or that they will not in the future bring legal proceedings against us or other credit card and debit card issuers and networks.

Beyond pursuing litigation, legislation and regulation, merchants may also promote forms of payment with lower fees, such as ACH-based payments, or seek to impose surcharges at the point of sale for use of credit or debit cards. For example, a consortium of large U.S. retailers was recently created to develop a merchant-owned mobile payment system in part to reduce interchange fees.

The heightened focus by merchants and regulatory and legislative bodies on the fees charged by credit and debit card networks, and the ability of certain merchants to successfully negotiate discounts to interchange fees with MasterCard and Visa or develop alternative payment systems could result in a reduction of interchange fees. Any resulting loss in income to us could have a material adverse effect on our business, financial condition and results of operations.

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If We Are Not Able To Invest Successfully In And Introduce Digital And Other Technological Developments Across All Our Businesses, Our Financial Performance May Suffer.

Our industry is subject to rapid and significant technological changes and our ability to meet our customers' needs and expectations is key to our ability to grow revenue and earnings. We expect digital technologies to have a significant impact on banking over time. Consumers increasingly expect robust digital experiences from their financial services providers. The ability for customers to access their accounts and conduct financial transactions using digital technology, including mobile applications, is an increasingly important aspect of the financial services industry and it impacts our ability to deliver products and services to our customers. To that end, financial institutions are rapidly introducing new digital and other technology-driven products and services, which aim to offer a better customer experience and to reduce costs. We continue to invest in digital technology designed to attract new customers, facilitate the ability of existing customers to conduct financial transactions and enhance the customer experience related to our products and services.

Our continued success depends, in part, upon our ability to address the needs of our customers by using digital technology to provide products and services that efficiently meet their expectations in a cost-effective manner. The development and launch of new digital products and services depends in large part on our capacity to invest in and build the technology platforms that can enable them. We continue to actively invest in such technology platforms, however, we may fail to implement the correct technology, or may fail to do so in a timely manner as discussed in more detail above under the headings "We Face Intense Competition In All Of Our Markets" and "We Face Risks Related To Our Operational, Technological And Organizational Infrastructure."

Some of our competitors are substantially larger than we are, which may allow those competitors to invest more money into their technology infrastructure and digital innovation than we do. In addition, we face intense competition from smaller companies which experience lower cost structures and different regulatory requirements than we do, and which may allow them to innovate more rapidly than we can. See "We Face Intense Competition In All Of Our Markets." Further, our success depends on our ability to attract and retain strong digital and technology leaders, engineers and other talent, and competition for such talent is intense. If we are unable to attract and retain digital and technology talent, our ability to offer digital products and services and build the necessary technology infrastructure could be negatively affected, which could negatively impact our business and financial results. A failure to maintain or enhance our competitive position with respect to digital products and services, whether because we fail to anticipate customer expectations or because our technological developments fail to perform as desired or are not implemented in a timely or successful manner, could negatively impact our business and financial results.

We May Fail To Realize All Of The Anticipated Benefits Of Our Mergers, Acquisitions And Strategic Partnerships.

We have engaged in merger and acquisition activity and entered into strategic partnerships over the past several years and may continue to engage in such activity in the future. We continue to evaluate and anticipate engaging in, among other merger and acquisition activity, additional strategic partnerships and selected acquisitions of financial institutions and other financial assets, including credit card and other loan portfolios.

Any merger, acquisition or strategic partnership we undertake entails certain risks, which may materially and adversely affect our results of operations. If we experience greater than anticipated costs to integrate acquired businesses into our existing operations or are not able to achieve the anticipated benefits of any merger, acquisition or strategic partnership, including cost savings and other synergies, our business could be negatively affected. In addition, it is possible that the ongoing integration processes could result in the loss of key employees, errors or delays in systems implementation, the disruption of our ongoing businesses or inconsistencies in standards, controls, procedures and policies that adversely affect our ability to maintain relationships with partners, clients, customers, depositors and employees or to achieve the anticipated benefits of any merger, acquisition or strategic partnership. Integration efforts also may divert management attention and resources. These integration matters may have an adverse effect on us during any transition period.

In addition, we may face the following risks in connection with any merger, acquisition or strategic partnership:

- New Businesses and Geographic or Other Markets: Our merger, acquisition or strategic partnership activity may involve our entry into new businesses and new geographic areas or other markets which present risks resulting from our relative inexperience in these new businesses or markets. These new businesses or markets may change the overall character of our consolidated portfolio of businesses and could react differently to economic and other external factors. We face the risk that we will not be successful in these new businesses or in these new markets.

- Identification and Assessment of Merger and Acquisition Targets and Deployment of Acquired Assets: We cannot assure you that we will identify or acquire suitable financial assets or institutions to supplement our organic growth through

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acquisitions or strategic partnerships. In addition, we may incorrectly assess the asset quality and value of the particular assets or institutions we acquire. Further, our ability to achieve the anticipated benefits of any merger, acquisition or strategic partnership will depend on our ability to assess the asset quality and value of the particular assets or institutions we partner with, merge with or acquire. We may be unable to profitably deploy any assets we acquire.

- Accuracy of Assumptions: In connection with any merger, acquisition or strategic partnership, we may make certain assumptions relating to the proposed merger, acquisition or strategic partnership that may be, or may prove to be, inaccurate, including as a result of the failure to realize the expected benefits of any merger, acquisition or strategic partnership. The inaccuracy of any assumptions we may make could result in unanticipated consequences that could have a material adverse effect on our results of operations or financial condition.
- Target-specific Risk: Assets and companies that we acquire, or companies that we enter into strategic partnerships with, will have their own risks that are specific to a particular asset or company. These risks include, but are not limited to, particular or specific regulatory, accounting, operational, reputational and industry risks, any of which could have a material adverse effect on our results of operations or financial condition. Indemnification rights, if any, may be insufficient to compensate us for any losses or damages resulting from such risks. In addition to regulatory approvals discussed above, certain of our merger, acquisition or partnership activity may require third-party consents in order for us to fully realize the anticipated benefits of any such transaction.

Reputational Risk And Social Factors May Impact Our Results And Damage Our Brand.

Our ability to originate and maintain accounts is highly dependent upon the perceptions of consumer and commercial borrowers and deposit holders and other external perceptions of our business and compliance practices or our financial health. In addition, our brand has historically been, and we expect it to continue to be, very important to us. Maintaining and enhancing our brand will depend largely on our ability to continue to provide high-quality products and services. Adverse perceptions regarding our reputation in the consumer, commercial and funding markets could lead to difficulties in generating and maintaining accounts as well as in financing them. In particular, negative public perceptions regarding our reputation could lead to decreases in the levels of deposits that consumer and commercial customers and potential customers choose to maintain with us. In addition, negative perceptions regarding certain industries or clients could also prompt us to cease business activities associated with those industries or clients.

Negative public opinion or damage to our brand could also result from actual or alleged conduct in any number of activities or circumstances, including lending practices, regulatory compliance, security breaches (including the use and protection of customer information), corporate governance, and sales and marketing, and from actions taken by regulators or other persons in response to such conduct. Such conduct could fall short of our customers' and the public's heightened expectations of companies of our size with rigorous data, privacy and compliance practices, and could further harm our reputation. In addition, third parties with whom we have important relationships may take actions over which we have limited control that could negatively impact perceptions about us. The proliferation of social media may increase the likelihood that negative public opinion from any of the events discussed above will impact our reputation and business.

In addition, a variety of social factors may cause changes in borrowing activity, including credit card use, payment patterns and the rate of defaults by accountholders and borrowers domestically and internationally. These social factors include changes in consumer confidence levels, the public's perception regarding consumer debt, including credit card use, and changing attitudes about the stigma of bankruptcy. If consumers develop or maintain negative attitudes about incurring debt, or if consumption trends decline or if we fail to maintain and enhance our brand, or we incur significant expenses in this effort, our business and financial results could be materially and negatively affected.

If We Are Not Able To Protect Our Intellectual Property, Our Revenue And Profitability Could Be Negatively Affected.

We rely on a variety of measures to protect and enhance our intellectual property, including copyrights, trademarks, trade secrets, patents and certain restrictions on disclosure, solicitation and competition. We also undertake other measures to control access to and distribution of our other proprietary information. These measures may not prevent misappropriation of our proprietary information or infringement of our intellectual property rights and a resulting loss of competitive advantage. In addition, our competitors or other third parties may file patent applications for innovations that are used in our industry or allege that our systems, processes or technologies infringe on their intellectual property rights. If our competitors or other third parties are successful in obtaining such patents or prevail in intellectual property-related litigation against us, we could lose significant revenues, incur significant license, royalty or technology development expenses, or pay significant damages.

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There Are Risks Resulting From The Extensive Use Of Models In Our Business.

We rely on quantitative models to aggregate and assess our various risk exposures and to estimate certain financial values. Models may be used in such processes as determining the pricing of various products, grading loans and extending credit, measuring interest rate and other market risks, predicting losses, assessing capital adequacy, and calculating economic and regulatory capital levels, as well as to estimate the value of financial instruments and balance sheet items. Poorly designed or implemented models present the risk that our business decisions based on information incorporating models will be adversely affected due to the inadequacy of that information. Also, information we provide to the public or to our regulators based on poorly designed or implemented models could be inaccurate or misleading. Some of the decisions that our regulators make, including those related to capital distribution to our shareholders, could be affected adversely due to the perception that the quality of the models used to generate the relevant information is insufficient. Any issues with the quality or effectiveness of our data aggregation and validation procedures, as well as the quality and integrity of data inputs, could result in ineffective risk management practices or inaccurate risk reporting. If our risk management framework proves ineffective, we could suffer unexpected losses which could materially adversely affect our results of operation or financial condition.

Our Risk Management Strategies May Not Be Fully Effective In Mitigating Our Risk Exposures In All Market Environments Or Against All Types Of Risk.

Management of risk, including market, credit, liquidity, compliance and strategic risks, requires, among other things, policies and procedures to record properly and verify a large number of transactions and events. See "MD&A—Risk Management" for further details. We have devoted significant resources to developing our risk management policies and procedures and expect to continue to do so in the future. Nonetheless, our risk management strategies may not be fully effective in identifying and mitigating our risk exposure in all market environments or against all types of risk, including risks that are unidentified or unanticipated, even if our models for assessing risk are properly designed and implemented.

Some of our methods of managing risk are based upon our use of observed historical market behavior and management's judgment. These methods may not accurately predict future exposures, which could be significantly greater than the historical measures indicate. For example, market conditions during the financial crisis involved unprecedented dislocations and highlight the limitations inherent in using historical information to manage risk. In addition, credit risk is inherent in the financial services business and results from, among other things, extending credit to customers. Our ability to assess the creditworthiness of our customers may be impaired if the models and approaches we use to select, manage and underwrite our consumer and commercial customers become less predictive of future charge-offs (due, for example, to rapid changes in the economy, including the unemployment rate).

While we employ a broad and diversified set of risk monitoring and risk mitigation techniques, those techniques and the judgments that accompany their application cannot anticipate every economic and financial outcome or the timing of such outcomes. For example, our ability to implement our risk management strategies may be hindered by adverse changes in the volatility or liquidity conditions in certain markets and as a result, may limit our ability to distribute such risks (for instance, when we seek to syndicate exposure in bridge financing transactions we have underwritten). We may, therefore, incur losses in the course of our risk management or investing activities.

Changes In Consumer Behavior And Their Adoption of Digital Technology May Change Retail Distribution Strategies And May Adversely Impact Our Investments In Our Bank Premises And Equipment And Other Retail Distribution Assets, Lead To Increased Expenditures And Expose Us To Additional Risk.

We have significant investments in bank premises and equipment for our branch network and other branch banking assets including our full service banking centers, parcels of land held for the development of future banking centers and our retail work force. Advances in technology such as digital and mobile banking, in-branch self-service technologies, proximity or remote payment technologies, as well as progressively changing customer preferences for these other methods of banking, could decrease the value of our branch network or other retail distribution assets. As a result, we may need to change our retail distribution strategy and close, sell and/or renovate certain branches or parcels of land held for development and restructure or reduce our remaining branches and work force. These actions could lead to losses on these assets or could adversely impact the carrying value of other long-lived assets, increase

our expenditures, dilute our brand and/or reduce customer demand for our products and services.
Further, to the extent that we change our retail distribution strategy and as a result expand into new business areas, we may face more competitors with more experience in the new business areas and more established relationships with relevant customers,

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regulators and industry participants, which could adversely affect our ability to compete. Our competitors may also be subject to less burdensome regulations. See "We Face Intense Competition In All Our Markets."

Fluctuations In Market Interest Rates Or Volatility In The Capital Markets Could Adversely Affect Our Income And Expense, The Value Of Assets And Obligations, Our Regulatory Capital, Cost Of Capital Or Our Liquidity.

Like other financial institutions, our business may be sensitive to market interest rate movement and the performance of the capital markets. Disruptions, uncertainty or volatility across the capital markets could negatively impact market liquidity and limit our access to liquidity required to operate and grow our business. In addition, changes in interest rates or in valuations in the debt or equity markets could directly impact us. For example, we borrow money from other institutions and depositors, which we use to make loans to customers and invest in debt securities and other earning assets. We earn interest on these loans and assets and pay interest on the money we borrow from institutions and depositors. Fluctuations in interest rates, including changes in the relationship between short-term rates and long-term rates and in the relationship between our funding basis rate and our lending basis rate, may have negative impacts on our net interest income and therefore our earnings. In addition, interest rate fluctuations and competitor responses to those changes may affect the rate of customer prepayments for mortgage, auto and other term loans and may affect the balances customers carry on their credit cards. These changes can reduce the overall yield on our earning asset portfolio. Changes in interest rates and competitor responses to these changes may also impact customer decisions to maintain balances in the deposit accounts they have with us. In addition, changes in valuations in the debt and equity markets could have a negative impact on the assets we hold in our investment portfolio. Such market changes could also have a negative impact on the valuation of assets for which we provide servicing. Finally, the Final Basel III Capital Rule requires that most amounts reported in Accumulated Other Comprehensive Income ("AOCI"), including unrealized gains and losses on securities designated as available for sale, be included in our regulatory capital calculations. Changes in interest rates or market valuations that result in unrealized losses on components of AOCI could therefore impact our regulatory capital ratios negatively.

We assess our interest rate risk by estimating the effect on our earnings under various scenarios that differ based on assumptions about the direction and the magnitude of interest rate changes. We take risk mitigation actions based on those assessments. We face the risk that changes in interest rates could materially reduce our net interest income and our earnings, especially if actual conditions turn out to be materially different than those we assumed. See "MD&A—Market Risk Management" for additional information.

Our Business Could Be Negatively Affected If We Are Unable To Attract, Retain And Motivate Skilled Senior Leaders.

Our success depends, in large part, on our ability to retain key senior leaders, and competition for such senior leaders is intense. The executive compensation provisions of the Dodd-Frank Act and the regulations issued thereunder, and any further legislation, regulation or regulatory guidance restricting executive compensation, may limit the types of compensation arrangements that we may enter into with our most senior leaders and could have a negative impact on our ability to attract, retain and motivate such leaders in support of our long-term strategy. These laws and regulations may not apply in the same manner to all financial institutions, and we therefore may face more restrictions than other institutions and companies with whom we compete for talent. If we are unable to retain talented senior leadership, our business could be negatively affected.

We Face Risks From Unpredictable Catastrophic Events.

Despite our substantial business contingency plans, the impact from natural disasters and other catastrophic events, including terrorist attacks, may have a negative effect on our business and infrastructure, including our information technology systems. In addition, if a natural disaster or other catastrophic event occurs in certain regions where our business and customers are concentrated, such as the mid-Atlantic and New York metropolitan area, we could be disproportionately impacted as compared to our competitors. The impact of such events and other catastrophes on the overall economy may also adversely affect our financial condition and results of operations.

We Face Risks From The Use Of Or Changes To Assumptions Or Estimates In Our Financial Statements.

Pursuant to generally accepted accounting principles in the U.S. ("U.S. GAAP"), we are required to use certain assumptions and estimates in preparing our financial statements, including determining our allowance for loan and lease losses, the fair value of certain assets and liabilities, and asset impairment, among other items. In addition, the FASB, the SEC and other regulatory bodies may change the financial accounting and reporting standards, including those related to assumptions and estimates we use to prepare our financial statements, in ways that we cannot predict and that could impact our financial statements. If actual results differ from the assumptions or estimates underlying our financial statements or if financial accounting and reporting standards are changed, we may experience unexpected material losses. For a discussion of our use of estimates in the preparation of our

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consolidated financial statements, see "MD&A—Critical Accounting Policies and Estimates" and "Note 1—Summary of Significant Accounting Policies."

Limitations On Our Ability To Receive Dividends From Our Subsidiaries Could Affect Our Liquidity And Ability To Pay Dividends And Repurchase Common Stock.

We are a separate and distinct legal entity from our subsidiaries, including the Banks. Dividends to us from our direct and indirect subsidiaries, including the Banks, have represented a major source of funds for us to pay dividends on our common and preferred stock, repurchase common stock, make payments on corporate debt securities and meet other obligations. There are various federal law limitations on the extent to which the Banks can finance or otherwise supply funds to us through dividends and loans. These limitations include minimum regulatory capital requirements, federal banking law requirements concerning the payment of dividends out of net profits or surplus, Sections 23A and 23B of the Federal Reserve Act and Regulation W governing transactions between an insured depository institution and its affiliates, as well as general federal regulatory oversight to prevent unsafe or unsound practices. If our subsidiaries' earnings are not sufficient to make dividend payments to us while maintaining adequate capital levels, our liquidity may be affected and we may not be able to make dividend payments to our common or preferred stockholders, repurchase our common stock, make payments on outstanding corporate debt securities or meet other obligations, each and any of which could have a material adverse impact on our results of operations, financial position or perception of financial health.

The Soundness Of Other Financial Institutions And Other Third Parties Could Adversely Affect Us.

Our ability to engage in routine funding and other transactions could be adversely affected by the stability and actions of other financial services institutions. Financial services institutions are interrelated as a result of trading, clearing, servicing, counterparty and other relationships. We have exposure to an increasing number of financial institutions and counterparties. These counterparties include institutions that may be exposed to various risks over which we have little or no control, including European or U.S. sovereign debt that is currently or may become in the future subject to significant price pressure, rating agency downgrade or default risk.

In addition, we routinely execute transactions with counterparties in the financial services industry, including brokers and dealers, commercial banks, investment banks, mutual and hedge funds and other institutional clients, resulting in a significant credit concentration with respect to the financial services industry overall. As a result, defaults by, or even rumors or questions about, one or more financial services institutions, or the financial services industry generally, have led to market-wide liquidity problems and could lead to losses or defaults by us or by other institutions. Likewise, adverse developments affecting the overall strength and soundness of our competitors, the financial services industry as a whole and the general economic climate or sovereign debt could have a negative impact on perceptions about the strength and soundness of our business even if we are not subject to the same adverse developments. In addition, adverse developments with respect to third parties with whom we have important relationships also could negatively impact perceptions about us. These perceptions about us could cause our business to be negatively affected and exacerbate the other risks that we face.

Item 1B. Unresolved Staff Comments

None.

Item 2. Properties

Our corporate and banking real estate portfolio consists of approximately 15.0 million square feet of owned or leased office and retail space, used to support our business. Of this overall portfolio, approximately 10.8 million square feet of space is dedicated for various corporate office uses and approximately 4.2 million square feet of space is for bank branches and related offices.

Our 10.8 million square feet of corporate office space consists of approximately 5.9 million square feet of leased space and 4.9 million square feet of owned space. Our headquarters is located in McLean, Virginia, and is included in our corporate office space. We maintain office space primarily in Virginia, Texas, Illinois, New York, Delaware, Louisiana and Maryland.

Our 4.2 million square feet of bank branches and related office space consists of approximately 2.1 million square feet of leased space and 2.1 million square feet of owned space, including branch locations primarily across New York, Louisiana, Texas, Maryland, Virginia, New Jersey and District of Columbia. See “Note 9—Premises, Equipment and Lease Commitments” for information about our premises.

Item 3. Legal Proceedings

The information required by Item 103 of Regulation S-K is included in “Note 21—Commitments, Contingencies, Guarantees and Others.”

Item 4. Mine Safety Disclosures

Not applicable.

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PART II

Item 5. Market for Registrant's Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

Market Information

Our common stock is listed on the NYSE and is traded under the symbol "COF." As of January 29, 2016, there were 12,056 holders of record of our common stock. The table below presents the high and low closing trade prices of our common stock as reported by the NYSE and cash dividends per common share declared by us during each quarter indicated.

	Trade Price		Cash
For the Quarter Ended	High	Low	Dividends
December 31, 2015	$81.42	$72.18	$0.40
September 30, 2015	91.71	71.55	0.40
June 30, 2015	89.38	79.67	0.40
March 31, 2015	82.49	73.21	0.30
December 31, 2014	$83.31	$76.43	$0.30
September 30, 2014	84.95	78.04	0.30
June 30, 2014	83.49	72.95	0.30
March 31, 2014	78.02	68.66	0.30

Dividend Restrictions

For information regarding our ability to pay dividends, see the discussion under "Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfers of Funds," "MD&A—Capital Management—Dividend Policy and Stock Purchases," and "Note 13—Regulatory and Capital Adequacy."

Securities Authorized for Issuance Under Equity Compensation Plans

Information relating to compensation plans under which our equity securities are authorized for issuance is presented in Part III of this Report under "Part III—Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters."

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Common Stock Performance Graph

The following graph shows the cumulative total stockholder return on our common stock compared to an overall stock market index, the S&P Composite 500 Stock Index ("S&P 500 Index"), and a published industry index, the S&P Financial Composite Index ("S&P Financial Index"), over the five-year period commencing December 31, 2010 and ending December 31, 2015. The stock performance graph assumes that $100 was invested in our common stock and each index and that all dividends were reinvested. The stock price performance on the graph below is not necessarily indicative of future performance.

	December 31,					
	2010	2011	2012	2013	2014	2015
Capital One	$100.00	$99.79	$137.21	$184.12	$201.53	$179.55
S&P 500 Index	100.00	100.00	113.40	146.97	163.71	162.52
S&P Financial Index	100.00	81.59	103.01	137.22	155.19	149.80

Recent Sales of Unregistered Securities

We did not have any sales of unregistered equity securities in 2015.

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Issuer Purchases of Equity Securities

The following table presents information related to repurchases of shares of our common stock for each calendar month in the fourth quarter of 2015.

(Dollars in millions, except per share information)	Total Number of Shares Purchased[1]	Average Price Paid per Share[2]	Total Number of Shares Purchased as Part of Publicly Announced Plans	Maximum Amount That May Yet be Purchased Under the Plan or Program[2]
October	3,036,479	$75.06	3,036,479	$ 1,647
November	3,247,143	79.21	3,229,942	1,391
December	1,812,341	77.93	1,812,341	1,250
Total	8,095,963	$77.37	8,078,762	

(1) Primarily comprised of repurchases under the $3.125 billion common stock repurchase program authorized by our Board of Directors and announced on March 11, 2015, which began on April 1, 2015 and authorized share repurchases through June 30, 2016. Also includes 17,201 shares purchased in November related to the withholding of shares to cover taxes on restricted stock awards whose restrictions have lapsed.

(2) Amounts exclude commission costs.

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Item 6. Summary of Selected Financial Data

The following table presents selected consolidated financial data and performance metrics for the five-year period ended December 31, 2015. Certain prior period amounts have been recast to conform to the current period presentation. We prepare our consolidated financial statements based on U.S. GAAP. This data should be reviewed in conjunction with our audited consolidated financial statements and related notes and with the MD&A included in this Report. The historical financial information presented may not be indicative of our future performance.

Five-Year Summary of Selected Financial Data[1]

(Dollars in millions, except per share data and as noted)	Year Ended December 31, 2015	2014	2013	2012	2011	Change 2015 vs. 2014	2014 vs. 2013
Income statement							
Interest income	$20,459	$19,397	$19,898	$18,964	$14,987	5%	(3)%
Interest expense	1,625	1,579	1,792	2,375	2,246	3	(12)
Net interest income	18,834	17,818	18,106	16,589	12,741	6	(2)
Non-interest income[2]	4,579	4,472	4,278	4,807	3,538	2	5
Total net revenue	23,413	22,290	22,384	21,396	16,279	5	—
Provision for credit losses[3]	4,536	3,541	3,453	4,415	2,360	28	3
Non-interest expense:							
Marketing	1,744	1,561	1,373	1,364	1,337	12	14
Amortization of intangibles	430	532	671	609	222	(19)	(21)
Operating expenses	10,822	10,087	10,309	9,824	7,672	7	(2)
Total non-interest expense	12,996	12,180	12,353	11,797	9,231	7	(1)
Income from continuing operations before income taxes	5,881	6,569	6,578	5,184	4,688	(10)	—
Income tax provision	1,869	2,146	2,224	1,475	1,452	(13)	(4)
Income from continuing operations, net of tax	4,012	4,423	4,354	3,709	3,236	(9)	2
Income (loss) from discontinued operations, net of tax	38	5	(233)	(217)	(106)	**	**
Net income	4,050	4,428	4,121	3,492	3,130	(9)	7
Dividends and undistributed earnings allocated to participating securities	(20)	(18)	(17)	(15)	(26)	11	6
Preferred stock dividends	(158)	(67)	(53)	(15)	—	136	26
Net income available to common stockholders	$3,872	$4,343	$4,051	$3,462	$3,104	(11)	7
Common share statistics							
Basic earnings per common share:							
Net income from continuing operations	$7.08	$7.70	$7.39	$6.56	$7.04	(8)%	4%
Income (loss) from discontinued operations	0.07	0.01	(0.40)	(0.39)	(0.23)	**	**
Net income per basic common share	$7.15	$7.71	$6.99	$6.17	$6.81	(7)	10
Diluted earnings per common share:							
Net income from continuing operations	$7.00	$7.58	$7.28	$6.49	$6.99	(8)	4

Income (loss) from discontinued operations	0.07	0.01	(0.39)	(0.38)	(0.23)	**	**
Net income per diluted common share	$7.07	$7.59	$6.89	$6.11	$6.76	(7)	10
Common shares outstanding (period end, in millions)	527.3	553.4	572.7	582.2	459.9	(5)	(3)
Dividends paid per common share	$1.50	$1.20	$0.95	$0.20	$0.20	25	26
Tangible book value per common share (period end)	53.65	50.32	43.64	40.10	34.16	7	15
Common dividend payout ratio[4]	20.98 %	15.56 %	13.59 %	3.24 %	2.93 %	542 bps	197 bps
Stock price per common share at period end	$72.18	$82.55	$76.61	$57.93	$42.29	(13)%	8%
Book value per common share at period end	89.67	81.41	72.69	69.43	64.40	10	12
Total market capitalization at period end	38,061	45,683	43,875	33,727	19,301	(17)	4

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(Dollars in millions, except per share data and as noted)	Year Ended December 31, 2015	2014	2013	2012	2011	Change 2015 vs. 2014	2014 vs. 2013
Balance sheet (average balances)							
Loans held for investment	$210,745	$197,925	$192,614	$187,915	$128,424	6%	3%
Interest-earning assets	282,581	267,174	266,423	255,079	175,265	6	—
Total assets	313,474	297,659	296,200	285,142	198,323	5	—
Interest-bearing deposits	185,677	181,036	187,700	183,314	109,644	3	(4)
Total deposits	210,989	205,675	209,045	203,055	126,694	3	(2)
Borrowings	45,420	38,882	37,807	38,025	38,022	17	3
Common equity	45,072	43,055	40,629	36,934	28,538	5	6
Total stockholders’ equity	47,713	44,268	41,482	37,265	28,538	8	7
Selected performance metrics							
Purchase volume[5]	$271,167	$224,750	$201,074	$180,599	$135,120	21%	12%
Total net revenue margin[6]	8.29%	8.34%	8.40%	8.39%	9.29%	(5)bps	(6)bps
Net interest margin[7]	6.66	6.67	6.80	6.50	7.27	(1)	(13)
Return on average assets	1.28	1.49	1.47	1.30	1.63	(21)	2
Return on average tangible assets[8]	1.35	1.57	1.55	1.38	1.76	(22)	2
Return on average common equity[9]	8.51	10.08	10.54	9.96	11.25	(157)	(46)
Return on average tangible common equity (“TCE”)[10]	12.87	15.79	17.35	17.25	22.05	(292)	(156)
Equity-to-assets ratio[11]	15.22	14.87	14.00	13.07	14.39	35	87
Non-interest expense as a percentage of average loans held for investment[12]	6.17	6.15	6.41	6.28	7.19	2	(26)
Efficiency ratio[13]	55.51	54.64	55.19	55.14	56.70	87	(55)
Effective income tax rate from continuing operations	31.8	32.7	33.8	28.5	31.0	(90)	(110)
Net charge-offs	$3,695	$3,414	$3,934	$3,555	$3,771	8%	(13)%
Net charge-off rate[14]	1.75%	1.72%	2.04%	1.89%	2.94%	3 bps	(32)bps

(Dollars in millions, except as noted)	December 31, 2015	2014	2013	2012	2011	Change 2015 vs. 2014	2014 vs. 2013
Balance sheet (period end)							
Loans held for investment	$229,851	$208,316	$197,199	$205,889	$135,892	10%	6%
Interest-earning assets	302,007	277,849	265,170	280,096	179,878	9	5
Total assets	334,048	308,167	296,064	311,682	204,336	8	4
Interest-bearing deposits	191,874	180,467	181,880	190,018	109,945	6	(1)
Total deposits	217,721	205,548	204,523	212,485	128,226	6	1
Borrowings	59,115	48,457	40,654	49,910	39,561	22	19
Common equity	43,990	43,231	40,779	39,572	29,617	2	6
Total stockholders’ equity	47,284	45,053	41,632	40,425	29,617	5	8
Credit quality metrics (period end)							
Allowance for loan and lease losses	$5,130	$4,383	$4,315	$5,156	$4,250	17%	2%
	2.23%	2.10%	2.19%	2.50%	3.13%	13 bps	(9)bps

Allowance as a percentage of loans held for investment (“allowance coverage ratio”)							
30+ day performing delinquency rate	2.69	2.62	2.63	2.70	3.35	7	(1)
30+ day delinquency rate	3.00	2.91	2.96	3.09	3.95	9	(5)
Capital ratios[15]							
Common equity Tier 1 capital ratio	11.1%	12.5%	N/A	N/A	N/A	(140)bps	**
Tier 1 common ratio	N/A	N/A	12.2	10.9	9.6	**	**
Tier 1 capital ratio	12.4	13.2	12.6	11.3	12.0	(80)bps	60 bps
Total capital ratio	14.6	15.1	14.7	13.5	14.8	(50)	40
Tier 1 leverage ratio	10.6	10.8	10.1	8.6	10.0	(20)	70
Tangible common equity ratio[16]	8.9	9.5	8.9	7.9	8.2	(60)	60
Supplementary leverage ratio[17]	9.2	N/A	N/A	N/A	N/A	**	**

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	December 31,					Change	
(Dollars in millions, except as noted)	2015	2014	2013	2012	2011	2015 vs. 2014	2014 vs. 2013
Other							
Employees (in thousands), period end	45.4	46.0	45.4	42.2	34.1	(1)%	1%

** Change is not meaningful.

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

(2) Includes a bargain purchase gain of $594 million attributable to the ING Direct acquisition recognized in non-interest income in the first quarter of 2012. The bargain purchase gain represents the excess of the fair value of the net assets acquired from ING Direct as of the acquisition date over the consideration transferred. See "MD&A—Glossary and Acronyms" for the definition of ING Direct acquisition.

(3) Provision for credit losses for 2012 includes expense of $1.2 billion to establish an initial allowance for the receivables acquired in the 2012 U.S. card acquisition accounted for based on contractual cash flows. See "MD&A—Glossary and Acronyms" for the definition of 2012 U.S. card acquisition.

(4) Calculated based on dividends per common share for the period divided by basic earnings per common share for the period.

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

(6) Calculated based on total net revenue for the period divided by average interest-earning assets for the period.

(7) Calculated based on net interest income for the period divided by average interest-earning assets for the period.

(8) Calculated based on income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See "MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information.

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

(10) Calculated based on the sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; (iii) less preferred stock dividends, for the period, divided by average tangible common equity ("TCE"). Our calculation of return on average TCE may not be comparable to similarly titled measures reported by other companies. See "MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information.

(11) Calculated based on average stockholders' equity for the period divided by average total assets for the period.

(12) Calculated based on non-interest expense for the period divided by average loans held for investment for the period.

(13) Calculated based on non-interest expense for the period divided by total net revenue for the period.

(14) Calculated based on net charge-offs for the period divided by average loans held for investment for the period.

(15) Beginning on January 1, 2014, we calculate our regulatory capital under Basel III Standardized Approach subject to transition provisions. Prior to January 1, 2014, we calculated regulatory capital measures under Basel I. See "MD&A—Capital Management" and "MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information, including the calculation of each of these ratios.

(16) The tangible common equity ratio is a non-GAAP measure calculated as TCE divided by tangible assets. See "MD&A—Table F—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for the

calculation of this measure and reconciliation to the comparative U.S. GAAP measure.

(17) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital under the Basel III Standardized Approach divided by total leverage exposure. See “MD&A—Capital Management” for additional information.

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Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")

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

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is intended to provide the reader with an understanding of our results of operations, financial condition and liquidity by focusing on changes from year to year in certain key measures used by management to evaluate performance, such as profitability, growth and credit quality metrics. MD&A is provided as a supplement to, and should be read in conjunction with, our audited consolidated financial statements as of and for the year ended December 31, 2015 and accompanying notes. MD&A is organized in the following sections:

- Executive Summary and Business Outlook
- Critical Accounting Policies and Estimates
- Accounting Changes and Developments
- Consolidated Results of Operations
- Business Segment Financial Performance
- Consolidated Balance Sheets Analysis
- Off-Balance Sheet Arrangements and Variable Interest Entities
- Capital Management
- Risk Management
- Credit Risk Profile
- Liquidity Risk Profile
- Market Risk Profile
- Supplemental Tables
- Glossary and Acronyms

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

In 2015 all three of our business segments delivered strong underlying performance. We continue to deliver attractive risk-adjusted returns while investing to improve profitability.

Financial Highlights

We reported net income of $4.1 billion ($7.07 per diluted common share) on total net revenue of $23.4 billion for 2015. In comparison, we reported net income of $4.4 billion ($7.59 per diluted common share) on total net revenue of $22.3 billion for 2014 and $4.1 billion ($6.89 per diluted common share) on total net revenue of $22.4 billion for 2013.

Our common equity Tier 1 capital ratio, as calculated under the Basel III Standardized Approach, including transition provisions, was 11.1% and 12.5% as of December 31, 2015 and 2014, respectively. We formally entered parallel run for Basel III Advanced Approaches on January 1, 2015. See "MD&A—Capital Management" below for additional information.

On March 11, 2015, we announced that our Board of Directors authorized the repurchase of up to $3.125 billion of shares of our common stock ("2015 Stock Repurchase Program"). Through the end of 2015, we repurchased approximately $1.875 billion of shares of common stock as part of this program and expect to complete the 2015 Stock Repurchase Program by the end of the second quarter of 2016. On February 17, 2016, we announced that our Board of Directors had authorized the repurchase of up to an additional $300 million of shares of common stock through the end of the second quarter of 2016 under the 2015 Stock Repurchase Program. See "MD&A—Capital Management" below for additional information.

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

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Total Company Performance

- Earnings: Our net income decreased by $378 million to $4.1 billion in 2015, compared to 2014. The decrease in net income from continuing operations in 2015 was driven by (i) an increase in the provision for credit losses in our domestic credit card loan portfolio due to a larger allowance build in 2015 due to continued loan growth coupled with our expectations for rising charge-off rates, and higher charge-offs as new loan balances season; (ii) an increase in the provision for credit losses in our commercial loan portfolio due to a larger build in both the allowance and reserve for unfunded lending commitments resulting from adverse market conditions impacting our oil and gas portfolio and taxi medallion lending portfolio; and (iii) an increase in non-interest expense driven by higher operating and marketing expenses associated with loan growth and continued technology and infrastructure investments. In 2015, we recorded charges totaling $150 million for severance and related benefits pursuant to our ongoing benefit programs and certain site closures, as a result of the realignment of our workforce. We also recorded a build in the U.K. Payment Protection Insurance customer refund reserve ("U.K. PPI Reserve") of $147 million in 2015, reflecting recent U.K. regulatory developments and updated estimates of future complaint levels. These expenses were partially offset by (i) higher interest income due to growth in our credit card, commercial and auto loan portfolios, partially offset by the planned run-off of our acquired home loan portfolio; and (ii) an increase in non-interest income primarily attributable to higher net interchange fees, partially offset by lower service charges and other customer-related fees primarily driven by the continued run-off of our payment protection products in our Domestic Card business. The increase in net income from discontinued operations in 2015 was primarily driven by a reduction in our mortgage representation and warranty reserve in 2015 resulting from favorable industry legal developments.
- Loans Held for Investment: Period-end loans held for investment increased by $21.5 billion to $229.9 billion as of December 31, 2015 from December 31, 2014 and average loans held for investment increased by $12.8 billion to $210.7 billion in 2015 compared to 2014. The increases were primarily driven by continued growth in our credit card, auto and commercial loan portfolios, including loans acquired from the GE Healthcare acquisition, partially offset by the planned run-off of our acquired home loan portfolio.
- Net Charge-off and Delinquency Statistics: Our net charge-off rate increased by 3 basis points to 1.75% in 2015 compared to 2014. Net charge-off rates remained low compared to our long-term trends, while we experienced rising losses in our taxi medallion lending portfolio and oil and gas portfolio within our Commercial Banking business. Our 30+ day delinquency rate increased by 9 basis points to 3.00% as of December 31, 2015, from December 31, 2014, primarily due to the seasoning of recent credit card loan originations and adverse market conditions impacting our taxi medallion lending portfolio. We provide additional information on our credit quality metrics below under "Business Segment Financial Performance" and "Credit Risk Profile."
- Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by $747 million to $5.1 billion as of December 31, 2015 from December 31, 2014. The increase in the allowance for loan and lease losses was primarily driven by continued loan growth, coupled with our expectations of rising charge-off rates in our domestic credit card portfolio driven by growth, as well as adverse market conditions impacting our oil and gas portfolio and taxi medallion lending portfolio in our Commercial Banking business. These factors also contributed to a higher allowance coverage ratio, which increased by 13 basis points to 2.23% as of December 31, 2015 from December 31, 2014.

Business Segment Financial Performance

Table 1 summarizes our business segment results, which we report based on revenue and income from continuing operations, net of tax, for the years ended December 31, 2015, 2014 and 2013. We provide information on the allocation methodologies used to derive our business segment results in "Note 20—Business Segments."

Table 1: Business Segment Results

	Year Ended December 31,					
	2015		2014		2013	
	Total Net Revenue[(1)]	Net Income[(2)]	Total Net Revenue[(1)]	Net Income[(2)]	Total Net Revenue[(1)]	Net Income (Loss)[(2)]

(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	$14,582	62 %	$2,354	59 %	$13,621	61 %	$2,479	56 %	$14,287	64 %	$2,615	60 %
Consumer Banking	6,465	28	1,034	26	6,432	29	1,195	27	6,654	30	1,451	33
Commercial Banking(3)	2,352	10	570	14	2,201	10	659	15	2,069	9	731	17
Other(4)	14	—	54	1	36	—	90	2	(626)	(3)	(443)	(10)
Total from continuing operations	$23,413	100 %	$4,012	100 %	$22,290	100 %	$4,423	100 %	$22,384	100 %	$4,354	100 %

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

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

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

(4) Includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expenses that do not directly support the operations of the business segments and other items as described in "Note 20—Business Segments."

Credit Card: Our Credit Card business generated net income from continuing operations of $2.4 billion in 2015, compared to net income from continuing operations of $2.5 billion in 2014. The decrease in net income in 2015 was primarily attributable to (i) higher provision for credit losses driven by a larger allowance build in our domestic credit card loan portfolio in 2015 due to continued loan growth coupled with our expectations for rising charge-off rates, as well as higher charge-offs as new loan balances season; and (ii) higher non-interest expense due to higher operating and marketing expenses associated with loan growth. These drivers were partially offset by (i) higher net interest income primarily driven by loan growth; and (ii) higher non-interest income attributable to an increase in net interchange fees, partially offset by a decline in service charges and other customer-related fees primarily due to the continued run-off of our payment protection products in our Domestic Card business. Period-end loans held for investment increased by $10.2 billion to $96.1 billion as of December 31, 2015 from December 31, 2014, primarily due to loan growth in our Domestic Card business.

Consumer Banking: Our Consumer Banking business generated net income from continuing operations of $1.0 billion in 2015, compared to net income from continuing operations of $1.2 billion in 2014. The decrease in net income in 2015 was primarily attributable to higher non-interest expense largely driven by increased operating expenses due to growth in our auto loan portfolio and continued technology and infrastructure investments in our retail banking business, as well as higher provision for credit losses due to a higher build in the allowance build for loan and lease losses in our Consumer Banking business, coupled with higher net charge-offs driven by growth in our auto loan portfolio. Period-end loans held for investment decreased by $1.1 billion to $70.4 billion as of December 31, 2015 from December 31, 2014, primarily due to the planned run-off of our acquired home loan portfolio outpacing the growth in our auto loan portfolio.

Commercial Banking: Our Commercial Banking business generated net income from continuing operations of $570 million in 2015, compared to net income from continuing operations of $659 million in 2014. The decrease in net income in 2015 was primarily attributable to (i) higher provision for credit losses due to a larger build in both the allowance for loan and lease losses and the reserve for unfunded lending commitments resulting from adverse market conditions impacting our oil and gas portfolio and taxi medallion lending portfolio, and (ii) higher non-interest expense largely driven by higher operating expenses due to costs associated with the GE Healthcare acquisition and continued growth in our Commercial Banking business. These expenses were partially offset by higher net interest income driven by growth in commercial and multifamily real estate and commercial and industrial average loans and higher non-interest income driven by increased revenue from products and services provided to our commercial customers. Period-end loans held for investment increased by $12.4 billion to $63.3 billion as of December 31, 2015 from December 31, 2014, driven by the GE Healthcare acquisition, as well as loan growth in our commercial and multifamily real estate and commercial and industrial loan portfolios.

Business Outlook

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

Total Company Expectations

Our strategies and actions are designed to deliver and sustain strong returns and capital generation through the acquisition and retention of franchise-enhancing customer relationships across our businesses. We believe that franchise-enhancing customer relationships create and sustain significant long-term value through long and loyal customer relationships and a gradual build in loan balances and revenues over time. Examples of franchise-enhancing customer relationships include rewards customers in our Credit Card business, retail deposit customers in our Consumer Banking business and primary banking relationships with commercial customers in our Commercial Banking business. We intend to grow these customer relationships by continuing to invest in scalable infrastructure and operating platforms, so that we can meet the heightened risk management expectations facing all banks and deliver a “brand-defining” customer experience that builds and sustains a valuable, long-term customer franchise.

We delivered revenue growth and attractive risk-adjusted returns in 2015, highlighted by strong growth in our Domestic Card business. In 2016, we expect full year growth in revenues, driven by loan growth. We expect some improvement in the full year 2016 efficiency ratio compared to 2015, with continuing improvement in 2017, excluding adjusting items.

We believe our actions have created a balance sheet with strong capital and liquidity. Pursuant to our approved 2015 capital plan, we increased our quarterly common stock dividend from $0.30 per share to $0.40 per share starting in the second quarter of 2015. We also expect to complete the repurchase of up to $3.125 billion of shares of our common stock pursuant to the 2015 Stock Repurchase Program through the second quarter of 2016. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, opportunities for growth, and our capital position and amount of retained earnings. The 2015 Stock Repurchase Program does not include specific price targets, may be executed through open market purchases or privately negotiated transactions, including utilizing Rule 10b5-1 programs, and may be suspended at any time. See “MD&A—Capital Management—Dividend Policy and Stock Purchases” for more information.

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Business Segment Expectations

Credit Card: In our Domestic Card business, we expect the upward pressure on delinquencies and charge-offs as new loan balances season and become a larger proportion of our overall portfolio will continue through 2016 and begin to moderate in 2017. We continue to expect the full-year 2016 charge-off rate to be around four percent, with quarterly seasonal variability. Based on current information and assuming relative stability in consumer behavior, the domestic economy, and competitive conditions, we expect the full-year 2017 charge-off rate in the low four percent range, with quarterly seasonal variability. Loan growth coupled with our expectations for a rising charge-off rate drove an allowance build in the fourth quarter, and we expect loan growth to drive allowance additions going forward.

Consumer Banking: In our Consumer Banking business, we expect persistently low interest rates will continue to pressure returns in our deposit businesses in 2016. We expect planned run-off from our acquired home loan portfolio to continue in 2016. We also expect continued pressure on margins in our auto business due to the mix shift toward prime and continuing competitive pressure. We expect these trends will negatively affect revenues in 2016.

Commercial Banking: Organic growth in our Commercial Banking business is slowing compared to prior years because of actions we are taking in response to market conditions. While competition in the Commercial Banking business remains intense, pressuring margin and returns, we continue to see good growth opportunities in select specialty industry verticals. Credit performance remains strong for the majority of our commercial businesses, but credit pressures continue in our oil and gas portfolio and taxi medallion lending portfolio. Unless oil prices rebound it is likely that energy loans will drive increases in our criticized and non-performing loans, further allowance additions, and possibly increasing charge-offs in 2016.

CRITICAL ACCOUNTING POLICIES AND ESTIMATES

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

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

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

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

Loan Loss Reserves

We maintain an allowance for loan and lease losses that represents management’s estimate of incurred loan and lease losses inherent in our held-for-investment credit card, consumer banking and commercial banking loan portfolios as of each balance sheet date. We also separately reserve for binding unfunded lending commitments, letters of credit and financial guarantees.

We build our allowance for loan and lease losses and reserve for unfunded lending commitments through the provision for credit losses. Our provision for credit losses in each period is driven by charge-offs, changes to allowance for loan and lease losses, and

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changes to unfunded lending commitments. We recorded a provision for credit losses of $4.5 billion in 2015 and $3.5 billion in both 2014 and 2013.

We have an established process, using analytical tools and management judgment, to determine our allowance for loan and lease losses. Losses are inherent in our loan portfolio and we calculate the allowance for loan and lease losses by estimating incurred losses for segments of our loan portfolio with similar risk characteristics and record a provision for credit losses. The allowance totaled $5.1 billion as of December 31, 2015, compared to $4.4 billion as of December 31, 2014.

We review and assess our allowance methodologies and adequacy of the allowance for loan and lease losses on a quarterly basis. Our assessment involves evaluating many factors including, but not limited to, historical loss and recovery experience, recent trends in delinquencies and charge-offs, risk ratings, the impact of bankruptcy filings, the value of collateral underlying secured loans, account seasoning, changes in our credit evaluation, underwriting and collection management policies, seasonality, general economic conditions, changes in the legal and regulatory environment and uncertainties in forecasting and modeling techniques used in estimating our allowance for loan and lease losses. Key factors that have a significant impact on our allowance for loan and lease losses include assumptions about unemployment rates, home prices, and the valuation of commercial properties and other collateral, consumer real estate, and automobiles.

In addition to the allowance for loan and lease losses, we review and assess our estimate of probable losses related to binding unfunded lending commitments, such as letters of credit and financial guarantees, and unfunded loan commitments on a quarterly basis. The factors impacting our assessment generally align with those considered in our evaluation of the allowance for loan and lease losses for the Commercial Banking business. Changes to the reserve for losses on unfunded lending commitments are recorded through the provision for credit losses in the consolidated statements of income and to other liabilities on the consolidated balance sheets.

Although we examine a variety of externally available data, as well as our internal loan performance data, to determine our allowance for loan and lease losses and reserve for unfunded lending commitments, our estimation process is subject to risks and uncertainties, including a reliance on historical loss and trend information that may not be representative of current conditions and indicative of future performance. Accordingly, our actual credit loss experience may not be in line with our expectations. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses for each of our loan portfolio segments in "Note 1—Summary of Significant Accounting Policies." We provide information on the components of our allowance, disaggregated by impairment methodology, and changes in our allowance in "Note 6—Allowance for Loan and Lease Losses."

Finance Charge and Fee Reserves

Finance charges and fees on credit card loans, net of amounts that we consider uncollectible, are included in loan receivables and revenue when the finance charges and fees are earned. We continue to accrue finance charges and fees on credit card loans until the account is charged-off; however, when we do not expect full payment of billed finance charges and fees, we reduce the balance of our credit card loan receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue. Total net revenue was reduced by $732 million, $645 million and $796 million in 2015, 2014 and 2013, respectively, for the estimated uncollectible amount of billed finance charges and fees. The finance charge and fee reserve totaled $262 million as of December 31, 2015, compared to $216 million as of December 31, 2014.

We review and assess the adequacy of the uncollectible finance charge and fee reserve on a quarterly basis. Our methodology for estimating the uncollectible portion of billed finance charges and fees is consistent with the methodology we use to estimate the allowance for incurred losses on the principal portion of our credit card loan receivables.

Asset Impairment

In addition to our loan portfolio, we review other assets for impairment on a regular basis in accordance with applicable impairment accounting guidance. This process requires significant management judgment and involves various estimates and assumptions. Our investment securities, goodwill and intangible assets represent a significant portion of our total assets excluding loans. Accordingly, below we describe our process for assessing impairment of these assets and the key estimates and assumptions involved in this process.

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Investment Securities

We regularly review our investment securities for other-than-temporary impairment ("OTTI") using both quantitative and qualitative criteria. If we intend to sell a security in an unrealized loss position or it is more likely than not that we will be required to sell the security prior to recovery of its amortized cost basis, the entire difference between the amortized cost basis of the security and its fair value is recognized in income. If we do not intend to sell the security and it is not more likely than not that we will be required to sell the security before recovery of our amortized cost, we evaluate other quantitative and qualitative criteria to determine whether a credit loss exists. Our evaluation requires significant management judgment and a consideration of many factors, including, but not limited to, the extent and duration of the impairment; the health of and specific prospects for the issuer, including whether the issuer has failed to make scheduled interest or principal payments; recent events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings; the value of underlying collateral and current market conditions. Quantitative criteria include assessing whether there has been an adverse change in expected future cash flows. See "Note 4—Investment Securities" for additional information.

Goodwill and Intangible Assets

Goodwill resulting from business combinations prior to January 1, 2009 represents the excess of the purchase price over the fair value of the net assets of businesses acquired. Goodwill resulting from business combinations after January 1, 2009, is generally determined as the excess of the fair value of the consideration transferred, plus the fair value of any non-controlling interests in the acquiree, over the fair value of the net assets acquired and liabilities assumed as of the acquisition date.

Goodwill totaled $14.5 billion and $14.0 billion as of December 31, 2015 and 2014, respectively. The increase was primarily attributable to $500 million of goodwill recognized as part of the GE Healthcare acquisition. See "Note 2—Business Developments" for additional information. Intangible assets, which we report on our consolidated balance sheets as a component of other assets, consist primarily of purchased credit card relationships ("PCCR") and core deposit intangibles. The net carrying amount of intangible assets decreased to $1.0 billion as of December 31, 2015, from $1.3 billion as of December 31, 2014. Goodwill and intangible assets together represented 5% of our total assets as of both December 31, 2015 and 2014. We did not recognize material impairment on goodwill or intangible assets in 2015, 2014 or 2013.

Goodwill

Goodwill is not amortized but is tested for impairment at the reporting unit level, on an annual basis or in interim periods if events or circumstances indicate potential impairment. A reporting unit is an operating segment or one level below. The goodwill impairment test, performed as of October 1 of each year, is a two-step test. The first step identifies whether there is potential impairment by comparing the fair value of each reporting unit to its carrying amount, including goodwill. If the fair value of a reporting unit is less than its carrying amount, the second step of the impairment test is required to measure the amount of any potential impairment loss.

Estimating the fair value of reporting units and the assets, liabilities and intangible assets of a reporting unit is a subjective process that involves the use of estimates and judgments. The fair value of reporting units is calculated using a discounted cash flow calculation, a form of the income approach. The calculation uses projected cash flows based on each reporting unit's internal forecast and the perpetuity growth method to calculate terminal values. These cash flows and terminal values are then discounted using discount rates based on our external cost of equity with adjustments for risk inherent in each reporting unit. Cash flows are adjusted, as necessary, in order to maintain each reporting unit's equity capital requirements. Our discounted cash flow analysis requires management to make judgments about future loan and deposit growth, revenue growth, credit losses, and capital rates. Discount rates used in 2015 for the reporting units ranged from 8% to 13%. The key inputs into the discounted cash flow analysis were consistent with market data, where available, indicating that assumptions used were within a reasonable range of observable market data.

We calculate the carrying amounts of our reporting units using an allocated capital approach based on each reporting unit's specific regulatory capital, economic capital requirements, and underlying risks. The total of the reporting unit carrying amount for the October 1, 2015 annual goodwill impairment test was $35.1 billion, compared to consolidated equity of $47.7 billion as of September 30, 2015. Of the $12.6 billion remaining equity, $8.2 billion was primarily attributable to the following items: capital allocated to our Other category, preferred stock, and capital that was reserved for dividends and share buy-backs that occurred during the fourth quarter of 2015. The remaining unallocated equity of approximately $4.4 billion, which represented approximately 9% of our total equity, has been reserved for potential future capital needs.

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We compare the total reporting unit carrying amounts to our total consolidated stockholders' equity to assess the appropriateness of our methodology. If the second step of goodwill impairment testing is required for a reporting unit, we would undertake an extensive effort to build the specific reporting unit's balance sheet for the test based on applicable accounting guidance. Based on our analysis, the current fair value exceeded the carrying amount of all reporting units as of our annual testing date; therefore, the second step of impairment testing was unnecessary.

Intangible Assets

Intangible assets with definitive useful lives are amortized over their estimated lives and evaluated for potential impairment whenever events or changes in circumstances suggest that an asset's or asset group's carrying amount may not be fully recoverable. An impairment loss, generally calculated as the difference between the estimated fair value and the carrying amount of an asset or asset group, is recognized if the sum of the estimated undiscounted cash flows relating to the asset or asset group is less than the corresponding carrying amount. See "Note 8—Goodwill and Intangible Assets" for additional information.

Fair Value

Fair value is defined as the price that would be received for an asset or paid to transfer a liability in an orderly transaction between market participants on the measurement date (also referred to as an exit price). The fair value accounting guidance provides a three-level fair value hierarchy for classifying financial instruments. This hierarchy is based on the markets in which the assets or liabilities trade and whether the inputs to the valuation techniques used to measure fair value are observable or unobservable. Fair value measurement of a financial asset or liability is assigned a level based on the lowest level of any input that is significant to the fair value measurement in its entirety. The three levels of the fair value hierarchy are described below:

Level 1: Quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2: Observable market-based inputs, other than quoted prices in active markets for identical assets or liabilities

Level 3: Unobservable inputs

The degree of management judgment involved in determining the fair value of a financial instrument is dependent upon the availability of quoted prices in active markets or observable market parameters. When quoted prices and observable data in active markets are not fully available, management judgment is necessary to estimate fair value. Changes in market conditions, such as reduced liquidity in the capital markets or changes in secondary market activities, may reduce the availability and reliability of quoted prices or observable data used to determine fair value. We have developed policies and procedures to determine when markets for our financial assets and liabilities are inactive if the level and volume of activity has declined significantly relative to normal conditions. If markets are determined to be inactive, it may be appropriate to adjust price quotes received. When significant adjustments are required to price quotes or inputs, it may be appropriate to utilize an estimate based primarily on unobservable inputs. Significant judgment may be required to determine whether certain financial instruments measured at fair value are classified as Level 2 or Level 3. In making this determination, we consider all available information that market participants use to measure the fair value of the financial instrument, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs used. Based upon the specific facts and circumstances of each instrument or instrument category, judgments are made regarding the significance of the Level 3 inputs to the instruments' fair value measurement in its entirety. If Level 3 inputs are considered significant, the instrument is classified as Level 3. The process for determining fair value using unobservable inputs is generally more subjective and involves a high degree of management judgment and assumptions.

Our financial instruments recorded at fair value on a recurring basis represented approximately 12% and 13% of our total assets as of December 31, 2015 and 2014, respectively. Financial assets for which the fair value was determined using significant Level 3 inputs represented approximately 2% and 4% of these financial instruments as of December 31, 2015 and 2014, respectively.

We discuss changes in the valuation inputs and assumptions used in determining the fair value of our financial instruments, including the extent to which we have relied on significant unobservable inputs to estimate fair value and our process for corroborating these inputs, in "Note 19—Fair Value Measurement."

Fair Value Measurement

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We have a governance framework and a number of key controls that are intended to ensure that our fair value measurements are appropriate and reliable. Our governance framework provides for independent oversight and segregation of duties. Our control processes include review and approval of new transaction types, price verification and review of valuation judgments, methods, models, process controls and results. Groups independent from our trading and investing functions, including our Corporate Valuations Group ("CVG"), Fair Value Committee ("FVC") and Model Validation Group, participate in the review and validation process. The fair valuation governance process is set up in a manner that allows the Chairperson of the FVC to escalate valuation disputes that cannot be resolved at the FVC to a more senior committee called the Valuations Advisory Committee ("VAC") for resolution. The VAC is chaired by the Chief Financial Officer and includes other senior management. The VAC is only required to convene to review escalated valuation disputes; however, it met once during 2015 for a general update on the valuation process.
The CVG performs periodic verification of fair value measurements to determine if assigned fair values are reasonable. For example, in cases where we rely on third party pricing services to obtain fair value measures, we analyze pricing variances among different pricing sources and validate the final price used by comparing the information to additional sources, including dealer pricing indications in transaction results and other internal sources, where necessary. Additional validation procedures performed by the CVG include reviewing (either directly or indirectly through the reasonableness of assigned fair values) valuation inputs and assumptions, and monitoring acceptable variances between recommended prices and validation prices. The CVG and the Trade Analytics and Valuation team ("TAV") perform due diligence reviews of the third party pricing services by comparing their prices with prices from other sources and reviewing other control documentation. Additionally, when necessary, the CVG and TAV challenge prices from third-party vendors to ensure reasonableness of prices through a pricing challenge process. This may include a request for a transparency of the assumptions used by the third party.
The FVC, which includes representation from business areas, our Risk Management division and our Finance division, is a forum for discussing fair market valuations, inputs, assumptions, methodologies, variance thresholds, valuation control environment and material risks or concerns related to fair market valuations. Additionally, the FVC is empowered to resolve valuation disputes between the primary valuation providers and the CVG. It provides guidance and oversight to ensure an appropriate valuation control environment. The FVC regularly reviews and approves our valuation methodologies to ensure that our methodologies and practices are consistent with industry standards and adhere to regulatory and accounting guidance. The Chief Financial Officer determines when material issues or concerns regarding valuations shall be raised to the Audit Committee or other delegated committee of the Board of Directors.
We have a model policy, established by an independent Model Risk Office, which governs the validation of models and related supporting documentation to ensure the appropriate use of models for pricing. The Model Validation Group is part of the Model Risk Office and validates all models and provides ongoing monitoring of their performance, including the validation and monitoring of the performance of all valuation models.

Representation and Warranty Reserve

In connection with the sales of mortgage loans, certain subsidiaries entered into agreements containing varying representations and warranties about, among other things, the ownership of the loan, the validity of the lien securing the loan, the loan's compliance with any applicable loan criteria established by the purchaser, including underwriting guidelines and the ongoing existence of mortgage insurance, and the loan's compliance with applicable federal, state and local laws. We may be required to repurchase the mortgage loan, indemnify the investor or insurer, or reimburse the investor for losses incurred on the loan in the event of a material breach of contractual representations or warranties.
We have established representation and warranty reserves for losses that we consider to be both probable and reasonably estimable associated with the mortgage loans sold by each subsidiary, including both litigation and non-litigation liabilities. The reserve-setting process relies heavily on estimates, which are inherently uncertain, and requires the application of judgment. In establishing the representation and warranty reserves, we rely on historical data and consider a variety of factors, depending on the category of purchaser. These factors include, but are not limited to, the historical relationship between loan losses and repurchase outcomes; the percentage of current and

future loan defaults that we anticipate will result in repurchase requests over the lifetime of the loans; the percentage of those repurchase requests that we anticipate will result in actual repurchases; and estimated collateral valuations. We evaluate these factors and update our loss forecast models on a quarterly basis to estimate our lifetime liability. Our aggregate representation and warranty mortgage reserve, which we report as a component of other liabilities on our consolidated balance sheets, totaled $610 million and $731 million as of December 31, 2015 and 2014, respectively. The adequacy of the reserve and the ultimate amount of losses incurred by us or one of our subsidiaries will depend on, among other things, actual future mortgage loan performance, the actual level of future repurchase and indemnification requests, the actual success rates of claimants,

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developments in litigation, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices).

As part of our business planning processes, we have considered various outcomes relating to the potential future representation and warranty liabilities of our subsidiaries that are possible but do not rise to the level of being both probable and reasonably estimable outcomes justifying an incremental accrual under applicable accounting standards. Our current best estimate of reasonably possible future losses from representation and warranty claims beyond what was in our reserve as of December 31, 2015 is approximately $1.6 billion, a decline from our estimate of $2.1 billion as of December 31, 2014. Notwithstanding our ongoing attempts to estimate a reasonably possible amount of future losses beyond our current accrual levels based on current information, it is possible that actual future losses will exceed both the current accrual level and our current estimate of the amount of reasonably possible losses. This estimate involves considerable judgment, and reflects that there is still significant uncertainty regarding the numerous factors that may impact the ultimate loss levels, including, but not limited to, anticipated litigation outcomes, future repurchase and indemnification claim levels, ultimate repurchase and indemnification rates, future mortgage loan performance levels, actual recoveries on the collateral and macroeconomic conditions (including unemployment levels and housing prices). In light of the significant uncertainty as to the ultimate liability our subsidiaries may incur from these matters, an adverse outcome in one or more of these matters could be material to our consolidated results of operations or cash flows for any particular reporting period. See "Note 21—Commitments, Contingencies, Guarantees and Others" for additional information.

Customer Rewards Reserve

We offer products, primarily credit cards, which include programs that allow members to earn rewards, in the form of points, that can be redeemed for cash (primarily in the form of statement credits), gift cards, airline tickets or merchandise, based on account activity. The amount of rewards that a customer earns varies based on the terms and conditions of the rewards program and product. The majority of our rewards do not expire and there is no limit on the number of rewards points an eligible card member can earn. Customer rewards costs, which we generally record as an offset to interchange income, are driven by various factors, such as card member purchase volume, the terms and conditions of the rewards program and rewards redemption cost. We establish a customer rewards reserve that reflects management's judgment regarding rewards earned that are expected to be redeemed and the estimated redemption cost. We use financial models to estimate ultimate redemption rates of rewards earned to date by current card members based on historical redemption trends, current enrollee redemption behavior, card product type, year of program enrollment, enrollment tenure and card spend levels. Our current assumption is that the vast majority of all rewards earned will eventually be redeemed. We use a weighted-average cost per reward redeemed during the previous twelve months, adjusted as appropriate for recent changes in redemption costs, including mix of rewards redeemed, to estimate future redemption costs. We continually evaluate our reserve and assumptions based on developments in redemption patterns, cost per point redeemed, changes to the terms and conditions of the rewards program and other factors. Changes in the ultimate redemption rate and weighted-average cost per point have the effect of either increasing or decreasing the reserve through the current period provision by an amount estimated to cover the cost of all points previously earned but not yet redeemed by card members as of the end of the reporting period. We recognized customer rewards expense of $2.7 billion, $2.0 billion and $1.6 billion in 2015, 2014 and 2013, respectively. Our customer rewards liability, which is included in other liabilities on our consolidated balance sheets, totaled $3.2 billion and $2.7 billion as of December 31, 2015 and 2014, respectively.

ACCOUNTING CHANGES AND DEVELOPMENTS

Accounting for Derivative Assets and Liabilities

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

retrospectively adopted this change in accounting principle and our consolidated balance sheet has been recast for all prior periods presented.
See "Note 1—Summary of Significant Accounting Policies" in the Notes to Consolidated Financial Statements in Item 8 of this

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Report regarding the impact of recently issued or adopted new accounting pronouncements.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for 2015, 2014 and 2013. Following this section, we provide a discussion of our business segment results. You should read this section together with our "Executive Summary and Business Outlook," where we discuss trends and other factors that we expect will affect our future results of operations.

Net Interest Income

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

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Table 2 below presents, for each major category of our interest-earning assets and interest-bearing liabilities, the average outstanding balances, interest income earned, interest expense incurred, average yield and rate for 2015, 2014 and 2013.

Table 2: Average Balances, Net Interest Income and Net Interest Margin(1)

	Year Ended December 31,								
	2015			2014			2013		
(Dollars in millions)	Average Balance	Interest Income/ Expense(2)(3)	Average Yield/ Rate	Average Balance	Interest Income/ Expense(2)(3)	Average Yield/ Rate	Average Balance	Interest Income/ Expense(2)(3)	Average Yield/ Rate
Assets:									
Interest-earning assets:									
Loans:									
Credit card:									
Domestic credit card	$78,931	$ 11,187	14.17%	$71,272	$ 10,161	14.26%	$74,950	$ 10,876	14.51 %
International credit card	7,992	1,200	15.02						