CAPITAL ONE FINANCIAL CORP
Form 10-Q
November 01, 2017

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

FORM 10-Q

ý QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934
For the quarterly period ended September 30, 2017
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
(Former name, former address and former fiscal year, if changed since last report)
(Not applicable)

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 whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, a smaller reporting company, or an emerging growth company. See the definitions of “large accelerated filer,” “accelerated filer,” “smaller reporting company,” and “emerging growth company” in Rule 12b-2 of the Exchange Act.

Large accelerated filer	ý	Accelerated filer	¨
Non-accelerated filer	¨ (Do not check if a smaller reporting company)	Smaller reporting company	¨
		Emerging growth company	¨

If an emerging growth company, indicate by check mark if the registrant has elected not to use the extended transition period for complying with any new or revised financial accounting standards provided pursuant to Section 13(a) of the Exchange Act. ¨
Indicate by check mark whether the registrant is a Shell Company (as defined in Rule 12b-2 of the Exchange Act) Yes ¨ No ý

As of October 31, 2017, there were 484,744,182 shares of the registrant's Common Stock outstanding.

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PART I—FINANCIAL INFORMATION
Item 2. 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 "MD&A—Forward-Looking Statements" for more information on the forward-looking statements in this Quarterly Report on Form 10-Q ("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 II—Item 1A. Risk Factors" in this Report and in "Part I—Item 1A. Risk Factors" in our 2016 Annual Report on Form 10-K ("2016 Form 10-K"). Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our unaudited consolidated financial statements as of September 30, 2017 included in this Report.

Management monitors a variety of key indicators to evaluate our business results and financial condition. The following MD&A is provided as a supplement to, and should be read in conjunction with, our consolidated financial statements and related notes in this Report and the more detailed information contained in our 2016 Form 10-K.
INTRODUCTION
We are a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of September 30, 2017, our principal subsidiaries included:

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

The Company is hereafter collectively referred to as "we," "us" or "our." COBNA and CONA are collectively referred to as the "Banks." Certain business terms used in this document are defined in the "MD&A—Glossary and Acronyms" and should be read in conjunction with the consolidated financial statements included in this Report.
Our consolidated total net revenues are derived primarily from lending to consumer and commercial customers net of funding costs associated with interest on deposits, short-term borrowings and long-term debt. We also earn non-interest income which primarily consists of interchange income net of rewards expenses and service charges and other customer-related fees. Our non-interest expenses primarily consist of the provision for credit losses, operating expenses, marketing expenses and income taxes.
Our principal operations are organized for management reporting purposes into three major business segments, which are defined 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 international card businesses in Canada and the United Kingdom ("U.K.").
- Consumer Banking: Consists of our branch-based lending and deposit gathering activities for consumers and small businesses, national deposit gathering, auto lending and consumer home loan lending and servicing activities.
- Commercial Banking: Consists of our lending, deposit gathering and servicing activities provided 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.

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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 business. We may issue equity or debt in connection with acquisitions, including public offerings, to fund such acquisitions.

On September 25, 2017, we completed the previously announced acquisition from Synovus Bank of credit card assets and related liabilities of World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated ("Cabela's acquisition"). The Cabela's acquisition added approximately $5.7 billion to our domestic credit card loans held for investment portfolio as of the acquisition date. See "Note 1—Summary of Significant Accounting Policies" for additional details.

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SUMMARY OF SELECTED FINANCIAL DATA

The following table presents selected consolidated financial data and performance from our results of operations for the third quarter and first nine months of 2017 and 2016 and selected comparative balance sheet data as of September 30, 2017 and December 31, 2016. We also provide selected key metrics we use in evaluating our performance, including certain metrics that are computed using non-GAAP measures. We believe these non-GAAP metrics provide useful insight to investors and users of our financial information in assessing the results of the Company.

Table 1: Consolidated Financial Highlights

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions, except per share data and as noted)	2017	2016	Change	2017	2016	Change
Income statement						
Net interest income	$5,700	$5,277	8 %	$16,647	$15,426	8 %
Non-interest income	1,285	1,184	9	3,577	3,509	2
Total net revenue	6,985	6,461	8	20,224	18,935	7
Provision for credit losses	1,833	1,588	15	5,625	4,707	20
Non-interest expense:						
Marketing	379	393	(4)	1,210	1,236	(2)
Amortization of intangibles	61	89	(31)	184	285	(35)
Operating expenses	3,127	2,879	9	9,021	8,358	8
Total non-interest expense	3,567	3,361	6	10,415	9,879	5
Income from continuing operations before income taxes	1,585	1,512	5	4,184	4,349	(4)
Income tax provision	448	496	(10)	1,205	1,372	(12)
Income from continuing operations, net of tax	1,137	1,016	12	2,979	2,977	—
Income (loss) from discontinued operations, net of tax	(30)	(11)	173	(26)	(17)	53
Net income	1,107	1,005	10	2,953	2,960	—
Dividends and undistributed earnings allocated to participating securities	(8)	(6)	33	(21)	(18)	17
Preferred stock dividends	(52)	(37)	41	(185)	(139)	33
Net income available to common stockholders	$1,047	$962	9	$2,747	$2,803	(2)
Common share statistics						
Basic earnings per common share:						
Net income from continuing operations	$2.22	$1.94	14 %	$5.73	$5.50	4 %
Income (loss) from discontinued operations	(0.06)	(0.02)	200	(0.05)	(0.03)	67
Net income per basic common share	$2.16	$1.92	13	$5.68	$5.47	4
Diluted earnings per common share:						
Net income from continuing operations	$2.20	$1.92	15	$5.68	$5.45	4
Income (loss) from discontinued operations	(0.06)	(0.02)	200	(0.05)	(0.03)	67
Net income per diluted common share	$2.14	$1.90	13	$5.63	$5.42	4
Weighted-average common shares outstanding (in millions):						
Basic	484.9	501.1	(3)%	483.7	512.0	(6)%
Diluted	489.0	505.9	(3)	488.1	516.8	(6)
Common shares outstanding (period-end, in millions)	484.4	489.2	(1)	484.4	489.2	(1)
Dividends paid per common share	$0.40	$0.40	—	$1.20	$1.20	—

Tangible book value per common share (period-end)[1]	63.06	59.00	7	63.06	59.00	7
Balance sheet (average balances)						
Loans held for investment	$245,822	$235,843	4 %	$243,205	$231,004	5 %
Interest-earning assets	322,015	310,987	4	319,497	304,423	5
Total assets	355,191	343,153	4	352,216	336,539	5
Interest-bearing deposits	213,137	196,913	8	213,508	195,565	9
Total deposits	238,843	222,251	7	239,316	220,864	8
Borrowings	54,271	60,708	(11)	52,159	56,292	(7)
Common equity	45,816	45,314	1	44,772	45,578	(2)
Total stockholders' equity	50,176	49,033	2	49,132	49,015	—

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(Dollars in millions, except per share data and as noted)	Three Months Ended September 30, 2017	2016	Change	Nine Months Ended September 30, 2017	2016	Change
Selected performance metrics						
Purchase volume[2]	$84,505	$78,106	8 %	$240,781	$224,314	7 %
Total net revenue margin[3]	8.68 %	8.31 %	37 bps	8.44 %	8.29 %	15 bps
Net interest margin[4]	7.08	6.79	29	6.95	6.76	19
Return on average assets	1.28	1.18	10	1.13	1.18	(5)
Return on average tangible assets[5]	1.34	1.24	10	1.18	1.24	(6)
Return on average common equity[6]	9.40	8.59	81	8.26	8.25	1
Return on average tangible common equity (“TCE”)[7]	14.11	13.06	105	12.56	12.54	2
Equity-to-assets ratio[8]	14.13	14.29	(16)	13.95	14.56	(61)
Non-interest expense as a percentage of average loans held for investment[9]	5.80	5.70	10	5.71	5.70	1
Efficiency ratio[10]	51.07	52.02	(95)	51.50	52.17	(67)
Effective income tax rate from continuing operations	28.3	32.8	(450)	28.8	31.5	(270)
Net charge-offs	$1,606	$1,240	30 %	$4,734	$3,573	32 %
Net charge-off rate[11]	2.61 %	2.10 %	51 bps	2.60 %	2.06 %	54 bps

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016	Change
Balance sheet (period-end)			
Loans held for investment	$ 252,422	$ 245,586	3 %
Interest-earning assets	329,002	321,807	2
Total assets	361,402	357,033	1
Interest-bearing deposits	212,956	211,266	1
Total deposits	239,062	236,768	1
Borrowings	59,458	60,460	(2)
Common equity	45,794	43,154	6
Total stockholders’ equity	50,154	47,514	6
Credit quality metrics			
Allowance for loan and lease losses	$ 7,418	$ 6,503	14 %
Allowance as a percentage of loans held for investment (“allowance coverage ratio”)	2.94 %	2.65 %	29 bps
30+ day performing delinquency rate	2.93	2.93	—
30+ day delinquency rate	3.24	3.27	(3)
Capital ratios			
Common equity Tier 1 capital[12]	10.7 %	10.1 %	60 bps
Tier 1 capital[12]	12.2	11.6	60
Total capital[12]	14.8	14.3	50
Tier 1 leverage [12]	10.5	9.9	60
Tangible common equity[13]	8.8	8.1	70
Supplementary leverage[12]	9.0	8.6	40
Other			
Employees (period end, in thousands)	50.4	47.3	7 %

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(1) Tangible book value per common share is a non-GAAP measure calculated based on tangible common equity divided by common shares outstanding. See “MD&A—Table A —Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.

(2) Purchase volume consists of purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale. Excludes cash advance and balance transfer transactions.

(3) Total net revenue margin is calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.

(4) Net interest margin is calculated based on annualized net interest income for the period divided by average interest-earning assets for the period.

(5) Return on average tangible assets is a non-GAAP measure calculated based on annualized income from continuing operations, net of tax, for the period divided by average tangible assets for the period. See “MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures” for additional information on non-GAAP measures.

(6) Return on average common equity is calculated based on annualized (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.

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(7) Return on average tangible common equity is a non-GAAP measure calculated based on annualized (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 TCE. Our calculation of return on average TCE may not be comparable to similarly-titled measures reported by other companies. See "MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures" for additional information on non-GAAP measures.

(8) Equity-to-assets ratio is calculated based on average stockholders' equity for the period divided by average total assets for the period.

(9) Non-interest expense as a percentage of average loans held for investment is calculated based on annualized non-interest expense for the period divided by average loans held for investment for the period.

(10) Efficiency ratio is calculated based on non-interest expense for the period divided by total net revenue for the period.

(11) Net charge-off rate is calculated based on annualized net charge-offs for the period divided by average loans held for investment for the period.

(12) Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provision. See "MD&A—Capital Management" for additional information.

(13) Tangible common equity ratio is a non-GAAP measure calculated based on TCE divided by tangible assets. See "MD&A—Table A—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.

EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

Financial Highlights

We reported net income of $1.1 billion ($2.14 per diluted common share) on total net revenue of $7.0 billion and net income of $3.0 billion ($5.63 per diluted common share) on total net revenue of $20.2 billion for the third quarter and first nine months of 2017, respectively. In comparison, we reported net income of $1.0 billion ($1.90 per diluted common share) on total net revenue of $6.5 billion and net income of $3.0 billion ($5.42 per diluted common share) on total net revenue of $18.9 billion for the third quarter and first nine months of 2016, respectively.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach, including transition provisions, was 10.7% and 10.1% as of September 30, 2017 and December 31, 2016, respectively. See "MD&A—Capital Management" below for additional information.

On June 28, 2017, we announced that our Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock ("2017 Stock Repurchase Program") from the third quarter of 2017 through the end of the second quarter of 2018. See "MD&A—Capital Management" below for additional information.

Below are additional highlights of our performance in the third quarter and first nine months of 2017. These highlights are generally based on a comparison between the results of the third quarter and first nine months of 2017 and 2016, 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 September 30, 2017 compared to our financial condition and credit performance as of December 31, 2016. We provide a more detailed discussion of our financial performance in the sections following this "Executive Summary and Business Outlook."

Total Company Performance

- Earnings: Our net income increased by $102 million to $1.1 billion in the third quarter of 2017 and was substantially flat at $3.0 billion in the first nine months of 2017 primarily driven by:

higher interest income due to growth in our domestic credit card and auto loan portfolios, as well as higher yields as a result of higher interest rates;

lower income tax provision due to a lower effective income tax rate primarily driven by increases in the relative benefit of tax exempt income and tax credits; and

higher non-interest income primarily attributable to gains from the sale of investment securities as a result of portfolio repositioning and higher net interchange fees primarily driven by higher purchase volume.

These drivers were partially offset by:
higher provision for credit losses primarily driven by higher charge-offs;

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- higher operating expenses as a result of (i) loan growth; (ii) continued investments in technology and infrastructure; and (iii) restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations; and
- higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities.

- Loans Held for Investment:
  - Period-end loans held for investment increased by $6.8 billion to $252.4 billion as of September 30, 2017 from December 31, 2016 primarily due to growth in our auto and domestic credit card loan portfolios, including loans acquired in the Cabela’s acquisition, partially offset by expected seasonal paydowns in our domestic credit card loan portfolio and run-off of our acquired home loan portfolio.
  - Average loans held for investment increased by $10.0 billion to $245.8 billion in the third quarter of 2017 compared to the third quarter of 2016, and increased by $12.2 billion to $243.2 billion in the first nine months of 2017 compared to the first nine months of 2016, primarily driven by growth in our auto, domestic credit card and commercial loan portfolios, partially offset by run-off of our acquired home loan portfolio.
- Net Charge-Off and Delinquency Metrics: Our net charge-off rate increased by 51 basis points to 2.61% in the third quarter of 2017 compared to the third quarter of 2016, and increased by 54 basis points to 2.60% in the first nine months of 2017 compared to the first nine months of 2016, primarily due to growth and seasoning of recent domestic credit card loan originations and higher losses in our auto loan portfolio due to recent growth and declines in used car auction prices, as well as higher charge-offs in our taxi medallion lending portfolio.

Our 30+ day delinquency rate decreased by 3 basis points to 3.24% as of September 30, 2017 from December 31, 2016 primarily due to growth in our domestic credit card and auto loan portfolios, as well as the impact of the transfer of certain nonperforming loans in our home loan portfolio from loans held for investment to loans held for sale, partially offset by higher domestic credit card and auto delinquency inventories.

We provide additional information on our credit quality metrics below under “MD&A—Business Segment Financial Performance” and “MD&A —Credit Risk Profile.”

- Allowance for Loan and Lease Losses: Our allowance for loan and lease losses increased by $915 million to $7.4 billion as of September 30, 2017 from December 31, 2016, and the allowance coverage ratio increased by 29 basis points to 2.94% as of September 30, 2017 from December 31, 2016. The increases were primarily driven by:
  - an allowance build in our domestic credit card loan portfolio primarily due to increasing losses from recent vintages and portfolio seasoning, as well as an initial quarterly allowance build related to the loans acquired in the Cabela’s acquisition;
  - an allowance build in our auto loan portfolio due to higher losses associated with growth; and
  - an allowance build for estimated hurricane-related losses.

These increases were partially offset by an allowance decrease in our commercial loan portfolio due to charge-offs in our taxi medallion lending portfolio.

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 Report. 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 “MD&A” in our 2016 Form 10-K. 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:

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- any change in current dividend or repurchase strategies;
- the effect of any acquisitions, divestitures or similar transactions that have not been previously disclosed; or
- any changes in laws, regulations or regulatory interpretations, in each case after the date as of which such statements are made.

See "MD&A—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 our 2016 Form 10-K for factors that could materially influence our results.

Total Company Expectations

We expect annual efficiency ratio for 2017, excluding adjusting items, will be in the low 51%s.

We expect to deliver earnings per share growth, excluding adjusting items, between 7% and 11% in 2017, assuming no substantial change in the broader credit and economic cycles. We expect to deliver solid earnings per share growth in 2018, excluding adjusting items, assuming no substantial change in the broader credit and economic cycles.

We believe our actions have created a well-positioned balance sheet with strong capital and liquidity. We believe that we are currently at the destination capital ratios appropriate for our current balance sheet mix. On June 28, 2017, we announced that our Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018 as part of the 2017 Stock Repurchase Program. The timing and exact amount of any common stock repurchases will depend on various factors, including market conditions, opportunities for growth and 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.

Business Segment Expectations

Credit Card: In our Domestic Card business, we expect the full-year 2017 charge-off rate will be at the high end of the high 4%s to around 5% range, whether or not the impact from the Cabela's acquisition is considered. We expect the impact of the Cabela's acquisition to be favorable to the full-year 2017 charge-off rate in our Domestic Card business by single-digit basis points. Going forward, we expect the impact of the Cabela's acquisition to reduce the 30+ day performing delinquency rate in our Domestic Card business by approximately 15 basis points, the charge-off rate in our Domestic Card business by approximately 25 basis points, and revenue margin in our Domestic Card business by approximately 65 basis points, all else being equal. We expect the impacts of the upward pressure on charge-offs as new loan balances in our front book season and become a larger proportion of our overall portfolio relative to the older and highly seasoned back book, will continue to moderate with a small impact in 2018. As the impact of front book seasoning moderates, our delinquency and charge-off rate trends will be driven primarily by broader industry factors.

Consumer Banking: In our Consumer Banking business, we expect that the charge-off rate in our auto finance business will increase gradually and the growth we have experienced in that business will moderate.

Commercial Banking: In our Commercial Banking business, we expect credit pressures will continue to be focused in our oil field service and taxi medallion lending portfolios.

CONSOLIDATED RESULTS OF OPERATIONS

The section below provides a comparative discussion of our consolidated financial performance for the third quarter and first nine months of 2017 and 2016. We provide a discussion of our business segment results in the following section, "MD&A—Business Segment Financial Performance." You should read this section together with our "MD&A—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, while our 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

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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 balance, interest income earned or interest expense incurred, and average yield for the third quarter and first nine months of 2017 and 2016.

Table 2: Average Balances, Net Interest Income and Net Interest Margin

	Three Months Ended September 30,					
	2017			2016		
(Dollars in millions)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Loans:[1]						
Credit card	$102,545	$3,995	15.58 %	$98,006	$3,598	14.68 %
Consumer banking	75,645	1,280	6.77	71,957	1,150	6.39
Commercial banking[2]	68,777	684	3.98	67,028	584	3.49
Other[3]	55	1	7.27	76	51	268.42
Total loans, including loans held for sale	247,022	5,960	9.65	237,067	5,383	9.08
Investment securities	69,302	431	2.49	66,291	386	2.33
Cash equivalents and other interest-earning assets	5,691	29	2.04	7,629	25	1.31
Total interest-earning assets	322,015	6,420	7.97	310,987	5,794	7.45
Cash and due from banks	3,336			3,182		
Allowance for loan and lease losses	(7,180)			(5,883)		
Premises and equipment, net	3,983			3,655		
Other assets	33,037			31,212		
Total assets	$355,191			$343,153		
Liabilities and stockholders’ equity:						
Interest-bearing liabilities:[3]						
Deposits	$213,137	$410	0.77 %	$196,913	$306	0.62 %
Securitized debt obligations	17,598	85	1.93	17,389	56	1.29
Senior and subordinated notes	28,753	194	2.70	22,342	121	2.17
Other borrowings and liabilities	9,320	31	1.33	21,840	34	0.62
Total interest-bearing liabilities	268,808	720	1.07	258,484	517	0.80
Non-interest-bearing deposits	25,706			25,338		
Other liabilities	10,501			10,298		
Total liabilities	305,015			294,120		
Stockholders’ equity	50,176			49,033		
Total liabilities and stockholders’ equity	$355,191			$343,153		
Net interest income/spread		$5,700	6.90		$5,277	6.65
Impact of non-interest-bearing funding			0.18			0.14
Net interest margin			7.08 %			6.79 %

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	Nine Months Ended September 30,					
	2017			2016		
(Dollars in millions)	Average Balance	Interest Income/ Expense	Average Yield/ Rate	Average Balance	Interest Income/ Expense	Average Yield/ Rate
Assets:						
Interest-earning assets:						
Loans:[1]						
Credit card	$101,258	$11,572	15.24 %	$95,190	$10,411	14.58 %
Consumer banking	74,607	3,693	6.60	71,192	3,354	6.28
Commercial banking[2]	68,171	1,946	3.81	65,600	1,691	3.44
Other[3]	61	44	96.17	82	160	260.16
Total loans, including loans held for sale	244,097	17,255	9.43	232,064	15,616	8.97
Investment securities	68,862	1,280	2.48	65,735	1,206	2.45
Cash equivalents and other interest-earning assets	6,538	83	1.69	6,624	60	1.21
Total interest-earning assets	319,497	18,618	7.77	304,423	16,882	7.39
Cash and due from banks	3,378			3,222		
Allowance for loan and lease losses	(6,894)			(5,481)		
Premises and equipment, net	3,879			3,647		
Other assets	32,356			30,728		
Total assets	$352,216			$336,539		
Liabilities and stockholders’ equity:						
Interest-bearing liabilities:[3]						
Deposits	$213,508	$1,145	0.72 %	$195,565	$881	0.60 %
Securitized debt obligations	17,726	236	1.78	15,997	151	1.26
Senior and subordinated notes	27,140	522	2.56	22,019	338	2.05
Other borrowings and liabilities	8,434	68	1.08	19,099	86	0.60
Total interest-bearing liabilities	266,808	1,971	0.98	$252,680	1,456	0.77
Non-interest-bearing deposits	25,808			25,299		
Other liabilities	10,468			9,545		
Total liabilities	303,084			287,524		
Stockholders’ equity	49,132			49,015		
Total liabilities and stockholders’ equity	$352,216			$336,539		
Net interest income/spread		$16,647	6.79		$15,426	6.62
Impact of non-interest-bearing funding			0.16			0.14
Net interest margin			6.95 %			6.76 %

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(1) Past due fees included in interest income totaled approximately $413 million and $1.2 billion in the third quarter and first nine months of 2017, respectively, and $390 million and $1.1 billion in the third quarter and first nine months of 2016, respectively.

(2) 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 rate of 35% with offsetting reclassifications to the Other category.

(3) Interest income and interest expense and the calculation of average yields on interest-earning assets and average rates on interest-bearing liabilities include the impact of hedge accounting.

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Net interest income increased by $423 million to $5.7 billion in the third quarter of 2017 compared to the third quarter of 2016 and increased by $1.2 billion to $16.6 billion in the first nine months of 2017 compared to the first nine months of 2016. Net interest margin increased by 29 basis points to 7.08% in the third quarter of 2017 compared to the third quarter of 2016 and increased by 19 basis points to 6.95% in the first nine months of 2017 compared to the first nine months of 2016. These increases were primarily driven by:

- growth in our domestic credit card and auto loan portfolios; and
- higher yields as a result of higher interest rates.

These increases were partially offset by:

- higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities; and
- one less day in the first nine months of 2017.

Table 3 displays the change in our net interest income between periods and the extent to which the variance is attributable to:

- changes in the volume of our interest-earning assets and interest-bearing liabilities; or
- changes in the interest rates related to these assets and liabilities.

Table 3: Rate/Volume Analysis of Net Interest Income[1]

	Three Months Ended September 30, 2017 vs. 2016			Nine Months Ended September 30, 2017 vs. 2016		
(Dollars in millions)	Total Variance	Volume	Rate	Total Variance	Volume	Rate
Interest income:						
Loans:						
Credit card	$397	$ 171	$226	$1,161	$ 681	$480
Consumer banking	130	60	70	339	165	174
Commercial banking[2]	100	16	84	255	68	187
Other	(50)	(10)	(40)	(116)	(32)	(84)
Total loans, including loans held for sale	577	237	340	1,639	882	757
Investment securities	45	18	27	74	58	16
Cash equivalents and other interest-earning assets	4	(7)	11	23	(1)	24
Total interest income	626	248	378	1,736	939	797
Interest expense:						
Deposits	104	26	78	264	85	179
Securitized debt obligations	29	1	28	85	18	67
Senior and subordinated notes	73	39	34	184	87	97
Other borrowings and liabilities	(3)	(19)	16	(18)	(48)	30
Total interest expense	203	47	156	515	142	373
Net interest income	$423	$ 201	$222	$1,221	$ 797	$424

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(1) We calculate the change in interest income and interest expense separately for each item. The portion of interest income or interest expense attributable to both volume and rate is allocated proportionately when the calculation results in a positive value. When the portion of interest income or interest expense attributable to both volume and rate results in a negative value, the total amount is allocated to volume or rate, depending on which amount is positive.

(2) 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 rate

of 35% with offsetting reclassifications to the Other category.

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Non-Interest Income

Non-interest income primarily consists of interchange fees net of rewards expense, service charges and other customer-related fees and other non-interest income. Other non-interest income includes the pre-tax net benefit (provision) for mortgage representation and warranty losses related to continuing operations, gains and losses on free-standing derivatives not accounted for in hedge accounting relationships and hedge ineffectiveness.

Table 4 displays the components of non-interest income for the third quarter and first nine months of 2017 and 2016.

Table 4: Non-Interest Income

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016[1]	2017	2016[1]
Interchange fees, net	$662	$603	$1,908	$1,828
Service charges and other customer-related fees	414	417	1,203	1,233
Net securities gains (losses)	68	1	64	(7)
Other non-interest income:				
Benefit for mortgage representation and warranty losses[2]	1	—	26	2
Net fair value gains on free-standing derivatives	36	39	76	91
Other	104	124	300	362
Total other non-interest income	141	163	402	455
Total non-interest income	$1,285	$1,184	$3,577	$3,509

(1) We made certain non-interest income reclassifications in the fourth quarter of 2016 to conform to the current period presentation. The primary net effects of the reclassifications compared to previously reported results were (i) an increase to Service charges and other customer-related fees of $30 million and $71 million for the three and nine months ended September 30, 2016, respectively; and (ii) a decrease to Other non-interest income of $31 million and $87 million for the three and nine months ended September 30, 2016, respectively. We have also consolidated the Non-interest income presentation of Other-than-temporary impairment ("OTTI") with net realized gains or losses from investment securities into a new Net securities gains (losses) line. See Note 1—Summary of Significant Accounting Policies in our 2016 Form 10-K for additional information.

(2) Represents the benefit for mortgage representation and warranty losses recorded in continuing operations.

Non-interest income increased by $101 million to $1.3 billion in the third quarter of 2017 compared to the third quarter of 2016, and increased by $68 million to $3.6 billion in the first nine months of 2017 compared to the first nine months of 2016 primarily due to:

- gains from the sale of investment securities as a result of portfolio repositioning; and
- an increase in net interchange fees primarily due to higher purchase volume.

Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for loan and lease losses and changes to the reserve for unfunded lending commitments. We recorded a provision for credit losses of $1.8 billion and $5.6 billion in the third quarter and first nine months of 2017, respectively, compared to $1.6 billion and $4.7 billion in the third quarter and first nine months of 2016, respectively. The provision for credit losses as a percentage of net interest income was 32.2% and 33.8% in the third quarter and first nine months of 2017, respectively, compared to 30.1% and 30.5% in the third quarter and first nine months of 2016, respectively.

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Our provision for credit losses increased by $245 million in the third quarter of 2017 compared to the third quarter of 2016 primarily driven by:

- higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning;
- higher charge-offs in our commercial loan portfolio due to increased charge-offs in our taxi medallion lending portfolio resulting from declines in taxi medallion values;
- an allowance build for estimated hurricane-related losses;
- an initial quarterly allowance build related to the loans acquired in the Cabela's acquisition; and
- higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices.

Our provision for credit losses increased by $918 million in the first nine months of 2017 compared to the first nine months of 2016 primarily driven by:

- higher charge-offs in our domestic credit card loan portfolio due to growth and portfolio seasoning;
- a larger allowance build in our domestic credit card loan portfolio due to increasing losses from recent vintages and portfolio seasoning, as well as an initial quarterly allowance build related to the loans acquired in the Cabela's acquisition; and
- higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices.

We provide additional information on the provision for credit losses and changes in the allowance for loan and lease losses within "MD&A—Credit Risk Profile," "Note 4—Loans" and "Note 5—Allowance for Loan and Lease Losses and Rese for Unfunded Lending Commitments." For information on the allowance methodology for each of our loan categories, see "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K.

Non-Interest Expense

Non-interest expense consists of operating expenses related to continuing operations, such as salaries and associate benefits, occupancy and equipment costs, professional services, communications and data processing expenses and other non-interest expenses, as well as marketing costs and amortization of intangibles.

Table 5 displays the components of non-interest expense for the third quarter and first nine months of 2017 and 2016.

Table 5: Non-Interest Expense

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016[(1)]	2017	2016[(1)]
Salaries and associate benefits	$1,524	$1,317	$4,378	$3,866
Occupancy and equipment	471	499	1,416	1,422
Marketing	379	393	1,210	1,236
Professional services	297	257	823	762
Communications and data processing	294	291	871	873
Amortization of intangibles	61	89	184	285
Other non-interest expense:				
Collections	93	76	266	234
Fraud losses	89	77	245	256
Bankcard, regulatory and other fee assessments	156	163	438	399
Other	203	199	584	546
Total other non-interest expense	541	515	1,533	1,435
Total non-interest expense	$3,567	$3,361	$10,415	$9,879

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(1) We made certain non-interest expense reclassifications in the fourth quarter of 2016 to conform to the current period presentation. The net effects of the reclassifications for the three and nine months ended September 30, 2016 compared to previously reported results were increases to Communications and

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data processing expense of $39 million and $116 million, respectively, with corresponding decreases to Professional services. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for additional information.
Non-interest expense increased by $206 million to $3.6 billion in the third quarter of 2017 compared to the third quarter of 2016, and increased by $536 million to $10.4 billion in the first nine months of 2017 compared to the first nine months of 2016 primarily due to:

- higher operating expenses associated with loan growth, as well as continued investments in technology and infrastructure; and
- restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations.

These increases were partially offset by lower amortization of intangibles.

Income (Loss) from Discontinued Operations, Net of Tax

Income (loss) from discontinued operations consists of results from the discontinued mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. ("GreenPoint") and the discontinued manufactured housing operations of GreenPoint Credit, LLC, a subsidiary of GreenPoint, both of which were acquired as part of the North Fork Bancorporation, Inc. ("North Fork") acquisition in December 2006. Loss from discontinued operations, net of tax, was $30 million and $26 million in the third quarter and first nine months of 2017, respectively, and $11 million and $17 million in the third quarter and first nine months of 2016, respectively.

We recorded a provision related to our mortgage representation and warranty reserve, net of tax, of $10 million ($13 million before tax) in the third quarter of 2017. We had a benefit, net of tax, of $30 million ($48 million before tax) in the first nine months of 2017 primarily as a result of a release in this reserve due to favorable legal developments.

We provide additional information on the discontinued operations in "Note 2—Discontinued Operations" and on the net benefit (provision) for mortgage representation and warranty losses and the related reserve for representation and warranty claims in "MD&A—Consolidated Balance Sheets Analysis—Mortgage Representation and Warranty Reserve" and "Note 14—Commitments, Contingencies, Guarantees and Others."

Income Taxes

We recorded income tax provisions of $448 million (28.3% effective income tax rate) and $1.2 billion (28.8% effective income tax rate) in the third quarter and first nine months of 2017, respectively, compared to $496 million (32.8% effective income tax rate) and $1.4 billion (31.5% effective income tax rate) in the third quarter and first nine months of 2016, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to fluctuations in our pre-tax earnings, which affects the relative tax benefit of tax-exempt income, tax credits and other permanent tax items.

The decrease in our effective income tax rate in the third quarter of 2017 and first nine months of 2017 compared to the third quarter of 2016 and first nine months of 2016 was primarily due to:

- increases in the relative benefit of tax exempt income and tax credits;
- increased benefits of lower taxed foreign earnings; and
- increased discrete tax benefits.

We provide additional information on items affecting our income taxes and effective tax rate under "Note 16—Income Taxes" in our 2016 Form 10-K.

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CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by $4.4 billion to $361.4 billion as of September 30, 2017 from December 31, 2016 primarily driven by an increase in loans held for investment due to growth in our auto and domestic credit card loan portfolios, including loans acquired in the Cabela’s acquisition. This increase was partially offset by expected seasonal paydowns in our domestic credit card loan portfolio.

Total liabilities increased by $1.7 billion to $311.2 billion as of September 30, 2017 from December 31, 2016 primarily driven by:

- an increase in deposits; and
- an increase in our senior and subordinated notes.

These drivers were partially offset by a decrease in our Federal Home Loan Banks (“FHLB”) advances outstanding, which is included in other debt.

Stockholders’ equity increased by $2.6 billion to $50.2 billion as of September 30, 2017 from December 31, 2016 primarily due to our net income of $3.0 billion in the first nine months of 2017.

This increase was partially offset by:

- $773 million of dividend payments to our common and preferred stockholders; and
- $236 million of treasury stock purchases.

The following is a discussion of material changes in the major components of our assets and liabilities during the first nine months of 2017. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to ensure the adequacy of capital while managing the liquidity requirements of the Company, our customers, and our market risk exposure in accordance with our risk appetite.

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Investment Securities

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"); Agency and non-agency commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other securities. The carrying value of our investments in U.S. Treasury and Agency securities represented 92% and 91% of our total investment securities as of September 30, 2017 and December 31, 2016, respectively.

The fair value of our available for sale securities portfolio was $39.7 billion as of September 30, 2017, a decrease of $995 million from December 31, 2016. The decrease in fair value was primarily due to sales and paydowns outpacing purchases, partially offset by fair value gains as a result of declines in long-term interest rates. The fair value of our held to maturity securities portfolio was $29.3 billion as of September 30, 2017, an increase of $3.1 billion from December 31, 2016. The increase in fair value was primarily driven by purchases outpacing paydowns.

Gross unrealized gains on our available for sale securities portfolio were substantially flat at $590 million as of September 30, 2017 compared to $539 million as of December 31, 2016. Gross unrealized losses on this portfolio decreased to $287 million as of September 30, 2017 compared to $535 million as of December 31, 2016 primarily due to declines in long-term interest rates. Of the $287 million gross unrealized losses as of September 30, 2017, $193 million was related to securities that had been in a loss position for 12 months or longer.

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Table 6 presents the amortized cost, carrying value and fair value for the major categories of our investment securities portfolio as of September 30, 2017 and December 31, 2016.

Table 6: Investment Securities

(Dollars in millions)	September 30, 2017 Amortized Cost	September 30, 2017 Fair Value	December 31, 2016 Amortized Cost	December 31, 2016 Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$5,110	$5,139	$5,103	$5,065
RMBS:				
Agency[1]	26,186	26,039	26,830	26,527
Non-agency	1,797	2,199	2,349	2,722
Total RMBS	27,983	28,238	29,179	29,249
CMBS:				
Agency[1]	3,033	3,021	3,335	3,304
Non-agency	1,783	1,808	1,676	1,684
Total CMBS	4,816	4,829	5,011	4,988
Other ABS[2]	546	547	714	714
Other securities[3]	984	989	726	721
Total investment securities available for sale	$39,439	$39,742	$40,733	$40,737

(Dollars in millions)	Carrying Value	Fair Value	Carrying Value	Fair Value
Investment securities held to maturity:				
U.S. Treasury securities	$199	$199	$199	$199
Agency RMBS	24,795	25,397	22,125	22,573
Agency CMBS	3,656	3,731	3,388	3,424
Total investment securities held to maturity	$28,650	$29,327	$25,712	$26,196

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(1) Includes securities guaranteed by Government National Mortgage Association ("Ginnie Mae") and securities issued by Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac").

(2) ABS collateralized by credit card loans constituted approximately 56% and 57% of the other ABS portfolio as of September 30, 2017 and December 31, 2016, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 23% of the other ABS portfolio as of both September 30, 2017 and December 31, 2016.

(3) Includes supranational bonds, foreign government bonds, mutual funds and equity investments.

Credit Ratings

Our portfolio of investment securities continues to be concentrated in securities that generally have high credit ratings and low credit risk, such as securities issued and guaranteed by the U.S. Treasury and Agencies. As of September 30, 2017 and December 31, 2016, approximately 96% and 95% of our total investment securities portfolio was rated AA+ or its equivalent, or better, respectively, while approximately 3% and 4% was below investment grade as of September 30, 2017 and December 31, 2016, respectively. We categorize the credit ratings of our investment securities based on the lower of credit ratings issued by Standard & Poor's Ratings Services ("S&P") and Moody's Investors Service ("Moody's").

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Table 7 provides information on the credit ratings of our non-agency RMBS, non-agency CMBS, other ABS and other securities in our portfolio as of September 30, 2017 and December 31, 2016.

Table 7: Non-Agency Investment Securities Credit Ratings

	September 30, 2017				December 31, 2016			
(Dollars in millions)	Fair Value	AAA	Other Investment Grade	Below Investment Grade[1]	Fair Value	AAA	Other Investment Grade	Below Investment Grade[1]
Non-agency RMBS	$2,199	—	3 %	97 %	$2,722	—	3 %	97 %
Non-agency CMBS	1,808	100%	—	—	1,684	100%	—	—
Other ABS	547	100	—	—	714	99	1	—
Other securities	989	73	17	10	721	62	25	13

[1] Includes investment securities that were not rated.

For additional information on our investment securities, see "Note 3—Investment Securities."

Loans Held for Investment

Total loans held for investment ("HFI") consists of both unsecuritized loans and loans held in our consolidated trusts. Table 8 summarizes the carrying value of our portfolio of loans held for investment by portfolio segment, net of the allowance for loan and lease losses, as of September 30, 2017 and December 31, 2016.

Table 8: Loans Held for Investment

	September 30, 2017			December 31, 2016		
(Dollars in millions)	Loans	Allowance	Net Loans	Loans	Allowance	Net Loans
Credit Card	$109,130	$ 5,534	$103,596	$105,552	$ 4,606	$100,946
Consumer Banking	75,564	1,213	74,351	73,054	1,102	71,952
Commercial Banking	67,670	669	67,001	66,916	793	66,123
Other	58	2	56	64	2	62
Total	$252,422	$ 7,418	$245,004	$245,586	$ 6,503	$239,083

Loans held for investment increased by $6.8 billion to $252.4 billion as of September 30, 2017 from December 31, 2016 primarily due to growth in our auto and domestic credit card loan portfolios, including loans acquired in the Cabela's acquisition, partially offset by expected seasonal paydowns in our domestic credit card loan portfolio and run-off of our acquired home loan portfolio.

We provide additional information on the composition of our loan portfolio and credit quality below in "MD&A—Credit Risk Profile," "MD&A—Consolidated Results of Operations" and "Note 4—Loans."

Deposits

Our deposits represent our largest source of funding for our operations and provide a consistent source of low-cost funds. Total deposits increased by $2.3 billion to $239.1 billion as of September 30, 2017. We provide information on the composition of our deposits, average outstanding balances, interest expense and yield in "MD&A—Liquidity Risk Profile."

Securitized Debt Obligations

Securitized debt obligations decreased to $17.1 billion as of September 30, 2017 from $18.8 billion as of December 31, 2016 as maturities outpaced issuances, partially offset by the securitized debt obligations assumed in the Cabela's acquisition. We provide additional information on our borrowings in "MD&A—Liquidity Risk Profile" and in "Note 8—Deposits and Borrowings."

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Other Debt

Other debt, which consists primarily of federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes, and FHLB advances, totaled $42.4 billion as of September 30, 2017, of which $41.6 billion represented long-term debt and the remainder represented short-term borrowings. Other debt totaled $41.6 billion as of December 31, 2016, of which $40.6 billion represented long-term debt and the remainder represented short-term borrowings.

The increase in other debt of $737 million in the first nine months of 2017 was primarily attributable to an increase in our senior and subordinated notes, partially offset by a decrease in our FHLB advances outstanding. We provide additional information on our borrowings in "MD&A—Liquidity Risk Profile" and in "Note 8—Deposits and Borrowings."

Mortgage Representation and Warranty Reserve

We acquired three subsidiaries that originated residential mortgage loans and sold these loans to various purchasers, including purchasers who created securitization trusts. These subsidiaries are Capital One Home Loans, LLC, which was acquired in February 2005; GreenPoint, which was acquired in December 2006 as part of the North Fork acquisition; and Chevy Chase Bank, F.S.B. ("CCB"), which was acquired in February 2009 and subsequently merged into CONA.

We establish representation and warranty reserves for losses associated with the mortgage loans sold by each subsidiary that we consider to be both probable and reasonably estimable. These reserves are reported on our consolidated balance sheets as a component of other liabilities. The reserve setting process relies heavily on estimates, which are inherently uncertain, and requires judgment. We evaluate these estimates on a quarterly basis. We build our representation and warranty reserves through the provision for mortgage representation and warranty losses, which we report in our consolidated statements of income as a component of non-interest income for loans originated and sold by CCB and Capital One Home Loans, LLC and as a component of discontinued operations for loans originated and sold by GreenPoint. The aggregate reserve for all three entities decreased to $401 million as of September 30, 2017 compared to $630 million as of December 31, 2016 primarily due to the resolution of several legal matters.

As part of our business planning processes, we have considered various outcomes relating to the 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 reserve 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 September 30, 2017 is approximately $550 million, a decrease from our estimate of $1.5 billion as of December 31, 2016 primarily due to the resolution of several legal matters.

The remaining representation and warranty reserve relates almost entirely to outstanding litigation matters. We provide additional information related to the representation and warranty reserve, including factors that may impact the adequacy of the reserve and the ultimate amount of losses incurred by our subsidiaries, in "Note 14—Commitments, Contingencies, Guarantees and Others."

OFF-BALANCE SHEET ARRANGEMENTS

In the ordinary course of business, we engage in certain activities that are not reflected on our consolidated balance sheets, generally referred to as off-balance sheet arrangements. These activities typically involve transactions with unconsolidated variable interest entities ("VIEs") as well as other arrangements, such as letter of credits, loan commitments and guarantees, to meet the financing needs of our customers and support their ongoing operations. We provide additional information regarding these types of activities in the "MD&A—Liquidity Risk Profile" as well as "Note 6—Variable Interest Entities and Securitizations" and "Note 14—Commitments, Contingencies, Guarantees and Others.

BUSINESS SEGMENT FINANCIAL PERFORMANCE

Our principal operations are organized into three major business segments, which are defined 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.

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The results of our individual businesses, which we report on a continuing operations basis, reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources. We provide additional information on the allocation methodologies used to derive our business segment results in "Note 18—Business Segments" in our 2016 Form 10-K.

We refer to the business segment results derived from our internal management accounting and reporting process as our "managed" presentation, which differs in some cases from our reported results prepared based on U.S. GAAP. There is no comprehensive authoritative body of guidance for management accounting equivalent to U.S. GAAP; therefore, the managed presentation of our business segment results may not be comparable to similar information provided by other financial services companies. In addition, our individual business segment results should not be used as a substitute for comparable results determined in accordance with U.S. GAAP.

Below we summarize our business segment results for the third quarter and first nine months of 2017 and 2016 and provide a comparative discussion of these results, as well as changes in our financial condition and credit performance metrics as of September 30, 2017 compared to December 31, 2016. We provide a reconciliation of our total business segment results to our reported consolidated results in "Note 13—Business Segments." Additionally, we provide information on the outlook for each of our business segments as described above in "MD&A—Executive Summary and Business Outlook."

Business Segment Financial Performance

Table 9 summarizes our business segment results, which we report based on revenue and income from continuing operations, for the third quarter and first nine months of 2017 and 2016. We provide information on the allocation methodologies used to derive our business segment results in "Note 18—Business Segments" in our 2016 Form 10-K. We also provide a reconciliation of our total business segment results to our consolidated U.S. GAAP results in "Note 13—Business Segments" of this Report.

Table 9: Business Segment Results

	Three Months Ended September 30,							
	2017				2016			
	Total Net Revenue[1]		Net Income[2]		Total Net Revenue[1]		Net Income[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	$4,305	62 %	$572	50 %	$4,029	62 %	$555	54 %
Consumer Banking	1,841	26	316	28	1,673	26	244	24
Commercial Banking[3]	739	11	179	16	711	11	191	19
Other[3][4]	100	1	70	6	48	1	26	3
Total	$6,985	100%	$1,137	100%	$6,461	100%	$1,016	100%

	Nine Months Ended September 30,							
	2017				2016			
	Total Net Revenue[1]		Net Income[2]		Total Net Revenue[1]		Net Income[2]	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total	Amount	% of Total
Credit Card	$12,558	62 %	$1,396	47 %	$11,813	62 %	$1,648	56 %
Consumer Banking	5,314	26	840	28	4,898	26	750	25
Commercial Banking[3]	2,215	11	538	18	2,054	11	396	13
Other[3][4]	137	1	205	7	170	1	183	6
Total	$20,224	100%	$2,979	100%	$18,935	100%	$2,977	100%

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

(2) Net income 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 to the Other category.

(4) The Other category includes the residual impact of the allocation of our centralized Corporate Treasury group activities, unallocated corporate expenses such as restructuring charges that do not directly support the operations of the business segments or for which the business segments are not considered financially accountable in evaluating their performance, and other items as described in "Note 18—Business Segments" in our 2016 Form 10-K.

Credit Card Business

The primary sources of revenue for our Credit Card business are interest income, net interchange income and fees collected from customers. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Credit Card business generated net income from continuing operations of $572 million and $1.4 billion in the third quarter and first nine months of 2017, respectively, and $555 million and $1.6 billion in the third quarter and first nine months of 2016, respectively.

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Table 10 summarizes the financial results of our Credit Card business and displays selected key metrics for the periods indicated.

Table 10: Credit Card Business Results

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions, except as noted)	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	$3,440	$3,204	7 %	$10,080	$9,282	9 %
Non-interest income	865	825	5	2,478	2,531	(2)
Total net revenue[1]	4,305	4,029	7	12,558	11,813	6
Provision for credit losses	1,466	1,272	15	4,580	3,604	27
Non-interest expense	1,961	1,884	4	5,808	5,630	3
Income from continuing operations before income taxes	878	873	1	2,170	2,579	(16)
Income tax provision	306	318	(4)	774	931	(17)
Income from continuing operations, net of tax	$572	$555	3	$1,396	$1,648	(15)
Selected performance metrics:						
Average loans held for investment[2]	$102,545	$98,016	5	$101,258	$95,139	6
Average yield on loans held for investment[3]	15.58 %	14.68 %	90 bps	15.24 %	14.59 %	65 bps
Total net revenue margin[4]	16.79	16.44	35	16.54	16.56	(2)
Net charge-offs	$1,155	$906	27 %	$3,682	$2,805	31 %
Net charge-off rate	4.51 %	3.70 %	81 bps	4.85 %	3.93 %	92 bps
Purchased credit card relationship (“PCCR”) intangible amortization	$43	$62	(31)%	$131	$199	(34)%
Purchase volume[5]	84,505	78,106	8	240,781	224,314	7

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment[2]	$109,130	$105,552	3 %
30+ day performing delinquency rate	3.91 %	3.91 %	—
30+ day delinquency rate	3.92	3.94	(2)bps
Nonperforming loan rate[6]	0.02	0.04	(2)
Allowance for loan and lease losses	$5,534	$4,606	20 %
Allowance coverage ratio[7]	5.07 %	4.36 %	71 bps

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(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs. Total net revenue was reduced by $356 million and $990 million in the third quarter and first nine months of 2017, respectively, and by $289 million and $761 million in the third quarter and first nine months of 2016, respectively, for the estimated uncollectible amount of billed finance charges and fees and related losses. The finance charge and fee reserve totaled $470 million and $402 million as of September 30, 2017 and December 31, 2016, respectively.

(2) Period-end loans held for investment and average loans held for investment include billed finance charges and fees, net of the estimated uncollectible amount.

(3) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(4) Total net revenue margin is calculated by dividing annualized total net revenue for the period by average loans held for investment during the period. Interest income also includes interest income on loans held for sale.

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

(6) Within our credit card loan portfolio, only certain loans in our international card businesses are classified as nonperforming. See "MD&A—Nonperforming Loans and Other Nonperforming Assets" for additional information.

(7) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

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Key factors affecting the results of our Credit Card business for the third quarter and first nine months of 2017 compared to the third quarter and first nine months of 2016, and changes in financial condition and credit performance between September 30, 2017 and December 31, 2016 include the following:

- Net Interest Income: Net interest income increased by $236 million to $3.4 billion in the third quarter of 2017 and increased by $798 million to $10.1 billion in the first nine months of 2017 primarily driven by:
  - loan growth in our Domestic Card business; and
  - the absence of a U.K. payment protection insurance customer refund reserve ("U.K. PPI Reserve") build in the second and third quarters of 2017.
- Non-Interest Income: Non-interest income increased by $40 million to $865 million in the third quarter of 2017 substantially driven by an increase in net interchange fees primarily due to higher purchase volume.

  Non-interest income decreased by $53 million to $2.5 billion in the first nine months of 2017 primarily driven by:
  - lower service charges and other customer-related fees primarily due to the exit of our legacy payment protection products in our Domestic Card business during the first quarter of 2016; and
  - the absence of a gain recorded in the second quarter of 2016 related to the exchange of our ownership interest in Visa Europe with Visa Inc. as a result of Visa Inc.'s acquisition of Visa Europe.

  These drivers were partially offset by an increase in net interchange fees primarily due to higher purchase volume.
- Provision for Credit Losses: The provision for credit losses increased by $194 million to $1.5 billion in the third quarter of 2017 primarily driven by:
  - higher charge-offs due to growth and portfolio seasoning; and
  - an initial quarterly allowance build related to the loans acquired in the Cabela's acquisition.

  These drivers were partially offset by a smaller allowance build in our domestic credit card loan portfolio, excluding Cabela's, compared to the third quarter of 2016.

  The provision for credit losses increased by $976 million to $4.6 billion in the first nine months of 2017 primarily driven by:
  - higher charge-offs due to growth and portfolio seasoning; and
  - a larger allowance build in our domestic credit card loan portfolio due to increasing losses from recent vintages and portfolio seasoning.
- Non-Interest Expense: Non-interest expense increased by $77 million to $2.0 billion in the third quarter of 2017, and increased by $178 million to $5.8 billion in the first nine months of 2017, primarily driven by higher operating expenses associated with loan growth and continued investments in technology and infrastructure, as well as costs associated with closing the Cabela's acquisition.

  This driver was partially offset by:
  - operating efficiencies;
  - lower amortization of intangibles; and
  - lower marketing expenses.
- Loans Held for Investment: Period-end loans held for investment increased by $3.6 billion to $109.1 billion as of September 30, 2017 from December 31, 2016 primarily due to the Cabela's acquisition and continued loan growth in our Domestic Card business, partially offset by expected seasonal paydowns. Average loans held for investment increased by $4.5 billion to $102.5 billion in the third quarter of 2017 compared to the third quarter of 2016 and increased by $6.1 billion

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to $101.3 billion in the first nine months of 2017 compared to the first nine months of 2016 primarily due to growth in our domestic credit card loan portfolio.

- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 81 basis points to 4.51% in the third quarter of 2017 compared to the third quarter of 2016 and increased by 92 basis points to 4.85% in the first nine months of 2017 compared to the first nine months of 2016 primarily driven by growth and seasoning of recent domestic credit card loan originations. The 30+ day delinquency rate decreased by 2 basis points to 3.92% as of September 30, 2017 from December 31, 2016 primarily due to the impact of the loans acquired in the Cabela's acquisition, partially offset by higher delinquency inventories.

Domestic Card Business

Domestic Card generated net income from continuing operations of $475 million and $1.2 billion in the third quarter and first nine months of 2017, respectively, compared to net income from continuing operations of $527 million and $1.6 billion in the third quarter and first nine months of 2016, respectively. In the third quarter and first nine months of 2017 and 2016, Domestic Card accounted for greater than 90% of total net revenue of our Credit Card business.

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Table 10.1 summarizes the financial results for Domestic Card and displays selected key metrics for the periods indicated.

Table 10.1: Domestic Card Business Results

(Dollars in millions, except as noted)	Three Months Ended September 30, 2017	2016	Change	Nine Months Ended September 30, 2017	2016	Change
Selected income statement data:						
Net interest income	$3,132	$ 2,956	6 %	$9,236	$8,481	9 %
Non-interest income	787	759	4	2,288	2,325	(2)
Total net revenue[1]	3,919	3,715	5	11,524	10,806	7
Provision for credit losses	1,417	1,190	19	4,381	3,326	32
Non-interest expense	1,754	1,696	3	5,198	5,036	3
Income from continuing operations before income taxes	748	829	(10)	1,945	2,444	(20)
Income tax provision	273	302	(10)	710	890	(20)
Income from continuing operations, net of tax	$475	$ 527	(10)	$1,235	$1,554	(21)
Selected performance metrics:						
Average loans held for investment[2]	$93,729	$ 89,763	4	$92,847	$86,974	7
Average yield on loans held for investment[3]	15.51 %	14.71 %	80 bps	15.20 %	14.51 %	69 bps
Total net revenue margin[4]	16.72	16.55	17	16.55	16.57	(2)
Net charge-offs	$1,087	$ 841	29 %	$3,455	$2,602	33 %
Net charge-off rate	4.64 %	3.74 %	90 bps	4.96 %	3.99 %	97 bps
PCCR intangible amortization	$43	$ 62	(31)%	$131	$199	(34)%
Purchase volume[5]	76,806	71,331	8	219,537	204,998	7

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment[2]	$99,981	$ 97,120	3 %
30+ day delinquency rate	3.94 %	3.95 %	(1)bps
Allowance for loan and lease losses	$5,155	$ 4,229	22 %
Allowance coverage ratio[6]	5.16 %	4.35 %	81 bps

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(1) We recognize billed finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and estimate the uncollectible amount on a quarterly basis. The estimated uncollectible amount of billed finance charges and fees is reflected as a reduction in revenue and is not included in our net charge-offs.

(2) Period-end loans held for investment and average loans held for investment include billed finance charges and fees, net of the estimated uncollectible amount.

(3) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(4) Total net revenue margin is calculated by dividing annualized total net revenue for the period by average loans held for investment during the period.

(5)

Purchase volume consists of purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale. Excludes cash advance and balance transfer transactions.

(6) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

Because our Domestic Card business accounts for the substantial majority of our Credit Card business, the key factors driving the results are similar to the key factors affecting our total Credit Card business. Net income for our Domestic Card business decreased in the third quarter of 2017 compared to the third quarter of 2016 and decreased in the first nine months of 2017 compared to the first nine months of 2016 primarily driven by:

- higher provision for credit losses, including an initial quarterly allowance build related to the loans acquired in the Cabela’s acquisition; and
- higher operating expenses associated with loan growth and continued investments in technology and infrastructure, as well as costs associated with closing the Cabela’s acquisition.

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These drivers were partially offset by:

- higher net interest income resulting from loan growth; and
- lower marketing expenses.

Consumer Banking Business

The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits and non-interest income from service charges and customer-related fees. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Consumer Banking business generated net income from continuing operations of $316 million and $840 million in the third quarter and first nine months of 2017, respectively, and $244 million and $750 million in the third quarter and first nine months of 2016, respectively.

Table 11 summarizes the financial results of our Consumer Banking business and displays selected key metrics for the periods indicated.

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Table 11: Consumer Banking Business Results

(Dollars in millions, except as noted)	Three Months Ended September 30, 2017	2016	Change	Nine Months Ended September 30, 2017	2016	Change
Selected income statement data:						
Net interest income	$1,649	$1,472	12 %	$4,744	$4,331	10 %
Non-interest income	192	201	(4)	570	567	1
Total net revenue	1,841	1,673	10	5,314	4,898	8
Provision for credit losses	293	256	14	840	690	22
Non-interest expense	1,051	1,034	2	3,152	3,030	4
Income from continuing operations before income taxes	497	383	30	1,322	1,178	12
Income tax provision	181	139	30	482	428	13
Income from continuing operations, net of tax	$316	$244	30	$840	$750	12
Selected performance metrics:						
Average loans held for investment:(1)						
Auto	$52,615	$45,355	16	$50,711	$43,647	16
Home loan	19,302	22,852	(16)	20,211	23,819	(15)
Retail banking	3,446	3,520	(2)	3,473	3,540	(2)
Total consumer banking	$75,363	$71,727	5	$74,395	$71,006	5
Average yield on loans held for investment(2)	6.79 %	6.41 %	38 bps	6.61 %	6.29 %	32 bps
Average deposits	$185,072	$177,402	4 %	$185,336	$176,159	5 %
Average deposits interest rate	0.62 %	0.56 %	6 bps	0.60 %	0.55 %	5 bps
Net charge-offs	$276	$227	22 %	$726	$556	31 %
Net charge-off rate	1.47 %	1.26 %	21 bps	1.30 %	1.04 %	26 bps
Net charge-off rate (excluding PCI loans)(3)	1.74	1.62	12	1.57	1.37	20
Auto loan originations	$7,043	$6,804	4 %	$21,521	$19,177	12 %

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment:(1)			
Auto	$53,290	$47,916	11 %
Home loan	18,820	21,584	(13)
Retail banking	3,454	3,554	(3)
Total consumer banking	$75,564	$73,054	3
30+ day performing delinquency rate	4.10 %	4.10 %	—
30+ day performing delinquency rate (excluding PCI loans)(3)	4.84	5.12	(28)bps
30+ day delinquency rate	4.61	4.67	(6)
30+ day delinquency rate (excluding PCI loans)(3)	5.44	5.82	(38)
Nonperforming loan rate	0.71	0.72	(1)
Nonperforming loan rate (excluding PCI loans)(3)	0.84	0.90	(6)
Nonperforming asset rate(4)	0.88	1.09	(21)

Nonperforming asset rate (excluding PCI loans)[3][4]	1.03	1.36	(33)
Allowance for loan and lease losses	$1,213	$1,102	10 %
Allowance coverage ratio[5][6]	1.61 %	1.51 %	10 bps
Deposits	$184,719	$181,917	2 %
Loans serviced for others[7]	8,752	8,258	6

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(1) Average consumer banking loans held for investment includes purchased credit-impaired loans (“PCI loans”) of $11.7 billion and $15.9 billion in the third quarter of 2017 and 2016, respectively, and $12.8 billion and $16.9 billion in the first nine months of 2017 and 2016, respectively. Period-end consumer banking loans held for investment includes PCI loans with carrying values of $11.5 billion and $14.5 billion as of September 30, 2017 and December 31, 2016, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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(2) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(3) See "MD&A—Credit Risk Profile" and "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for additional information on the impact of PCI loans on our credit quality metrics.

(4) Nonperforming assets consist of nonperforming loans, real estate owned ("REO") and other foreclosed assets. The total nonperforming asset rate is calculated based on total nonperforming assets divided by the combined period-end total loans held for investment, REO and other foreclosed assets.

(5) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

(6) Excluding the impact of the PCI home loan amounts in footnote 1 above, the allowance coverage ratios for our home loan portfolio and total consumer banking were 0.34% and 1.84%, respectively, as of September 30, 2017, compared to 0.51% and 1.83%, respectively, as of December 31, 2016.

(7) Loans serviced for others represents loans serviced for third parties related to our consumer home loan lending business.

Key factors affecting the results of our Consumer Banking business for the third quarter and first nine months of 2017 compared to the third quarter and first nine months of 2016, and changes in financial condition and credit performance between September 30, 2017 and December 31, 2016 include the following:

- Net Interest Income: Net interest income increased by $177 million to $1.6 billion in the third quarter of 2017 and increased by $413 million to $4.7 billion in the first nine months of 2017 primarily driven by growth in our auto loan portfolio and higher deposit volumes and margins in our retail banking business.

Consumer Banking loan yield increased by 38 basis points to 6.8% and increased by 32 basis points to 6.6% in the third quarter and first nine months of 2017, respectively. The increases were primarily driven by changes in the product mix in Consumer Banking as a result of growth in our auto loan portfolio and run-off of our acquired home loan portfolio.

- Non-Interest Income: Non-interest income was substantially flat at $192 million and $570 million in the third quarter and first nine months of 2017, respectively.
- Provision for Credit Losses: The provision for credit losses increased by $37 million to $293 million in the third quarter of 2017 and increased by $150 million to $840 million in the first nine months of 2017 primarily driven by:

higher charge-offs in our auto loan portfolio due to recent growth and declines in used car auction prices, as well as changes in our charge-off practices for certain loans; and

an allowance build for estimated hurricane-related losses.

- Non-Interest Expense: Non-interest expense increased by $17 million to $1.1 billion in the third quarter of 2017 and increased by $122 million to $3.2 billion in the first nine months of 2017 primarily due to higher operating expenses driven by growth in our auto loan portfolio and continued investment in technology and infrastructure.
- Loans Held for Investment: Period-end loans held for investment increased by $2.5 billion to $75.6 billion as of September 30, 2017 from December 31, 2016, and average loans held for investment increased by $3.6 billion to $75.4 billion in the third quarter of 2017 compared to the third quarter of 2016 and increased by $3.4 billion to $74.4 billion in the first nine months of 2017 compared to the first nine months of 2016. These increases were due to growth in our auto loan portfolio, partially offset by run-off of our acquired home loan portfolio.
- Deposits: Period-end deposits increased by $2.8 billion to $184.7 billion as of September 30, 2017 from December 31, 2016.
- Net Charge-Off and Delinquency Metrics: The net charge-off rate increased by 21 basis points to 1.47% in the third quarter of 2017 compared to the third quarter of 2016, and increased by 26 basis points to 1.30% in the first nine months of 2017 compared to the first nine months of 2016. The increases were driven by:

higher losses in our auto loan portfolio due to recent growth and declines in used car auction prices, as well as changes in our charge-off practices for certain loans; and

a greater portion of auto loans in our total consumer banking loan portfolio, which generally have higher charge-off rates than other products within this portfolio.

The 30+ day delinquency rate decreased by 6 basis points to 4.61% as of September 30, 2017 from December 31, 2016 primarily attributable to:

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growth in our auto loan portfolio; and
the impact of the transfer of certain nonperforming loans in our home loan portfolio from loans held for investment to loans held for sale.

These drivers were partially offset by higher auto delinquency inventories.

Commercial Banking Business

The primary sources of revenue for our Commercial Banking business are net interest income from loans and deposits and non-interest income from customer fees and other transactions. Because we have some investments that generate tax-exempt income or tax credits, we make certain reclassifications to our Commercial Banking business results to present revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses, operating costs and marketing expenses.

Our Commercial Banking business generated net income from continuing operations of $179 million and $538 million in the third quarter and first nine months of 2017, respectively, and $191 million and $396 million in the third quarter and first nine months of 2016, respectively.

Table 12 summarizes the financial results of our Commercial Banking business and displays selected key metrics for the periods indicated.

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Table 12: Commercial Banking Business Results

(Dollars in millions, except as noted)	Three Months Ended September 30, 2017	2016	Change	Nine Months Ended September 30, 2017	2016	Change
Selected income statement data:						
Net interest income	$560	$555	1 %	$1,695	$1,651	3 %
Non-interest income	179	156	15	520	403	29
Total net revenue[1]	739	711	4	2,215	2,054	8
Provision (benefit) for credit losses[2]	63	61	3	201	417	(52)
Non-interest expense	394	349	13	1,166	1,014	15
Income from continuing operations before income taxes	282	301	(6)	848	623	36
Income tax provision	103	110	(6)	310	227	37
Income from continuing operations, net of tax	$179	$191	(6)	$538	$396	36
Selected performance metrics:						
Average loans held for investment:[3]						
Commercial and multifamily real estate	$27,703	$26,154	6	$27,235	$25,612	6
Commercial and industrial	39,723	39,346	1	39,804	38,610	3
Total commercial lending	67,426	65,500	3	67,039	64,222	4
Small-ticket commercial real estate	433	534	(19)	453	565	(20)
Total commercial banking	$67,859	$66,034	3	$67,492	$64,787	4
Average yield on loans held for investment[1][4]	3.98 %	3.50 %	48 bps	3.81 %	3.45 %	36 bps
Average deposits	$33,197	$33,498	(1)%	$33,890	$33,778	—
Average deposits interest rate	0.42 %	0.30 %	12 bps	0.37 %	0.28 %	9 bps
Net charge-offs	$163	$108	51 %	$322	$214	50 %
Net charge-off rate	0.96 %	0.66 %	30 bps	0.64 %	0.44 %	20 bps

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016	Change
Selected period-end data:			
Loans held for investment:[3]			
Commercial and multifamily real estate	$27,944	$26,609	5 %
Commercial and industrial	39,306	39,824	(1)
Total commercial lending	67,250	66,433	1
Small-ticket commercial real estate	420	483	(13)
Total commercial banking	$67,670	$66,916	1
Nonperforming loan rate	1.16 %	1.53 %	(37)bps
Nonperforming asset rate[5]	1.22	1.54	(32)
Allowance for loan and lease losses[2]	$669	$793	(16)%
Allowance coverage ratio[6]	0.99 %	1.19 %	(20)bps
Deposits	$32,783	$33,866	(3)%
Loans serviced for others[7]	25,597	22,321	15

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(1) 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 to the Other category.

(2) The provision for losses on unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. Our reserve for unfunded lending commitments totaled $120 million and $129 million as of September 30, 2017 and December 31, 2016, respectively.

(3) Average commercial banking loans held for investment includes PCI loans of $517 million and $672 million in the third quarter of 2017 and 2016, respectively, and $557 million and $813 million in the first nine months of 2017 and 2016, respectively. Period-end commercial banking loans held for investment includes PCI loans of $503 million and $613 million as of September 30, 2017 and December 31, 2016, respectively. See “MD&A—Glossary and Acronyms” for the definition of “PCI loans.”

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(4) Average yield on loans held for investment is calculated by dividing annualized interest income for the period by average loans held for investment during the period. Interest income excludes various allocations including funds transfer pricing that assigns certain balance sheet assets, deposits and other liabilities and their related revenue and expenses attributable to each business segment.

(5) Nonperforming assets consist of nonperforming loans, real estate owned ("REO") and other foreclosed assets. The total nonperforming asset rate is calculated based on total nonperforming assets divided by the combined period-end total loans held for investment, REO and other foreclosed assets.

(6) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment.

(7) Loans serviced for others represents loans serviced for third parties related to our multifamily finance business.

Key factors affecting the results of our Commercial Banking business for the third quarter and first nine months of 2017 compared to the third quarter and first nine months of 2016, and changes in financial condition and credit performance between September 30, 2017 and December 31, 2016 include the following:

- Net Interest Income: Net interest income was substantially flat at $560 million in the third quarter of 2017 and increased by $44 million to $1.7 billion in the first nine months of 2017 primarily driven by higher deposit margins as a result of higher interest rates and loan growth.
- Non-Interest Income: Non-interest income increased by $23 million to $179 million in the third quarter of 2017 and increased by $117 million to $520 million in the first nine months of 2017 primarily driven by increased activity across a broad range of products and services provided to our commercial customers.
- Provision for Credit Losses: The provision for credit losses was substantially flat at $63 million in the third quarter of 2017 with both periods impacted by charge-offs in our taxi medallion lending portfolio resulting from declines in taxi medallion values.

The provision for credit losses decreased by $216 million to $201 million in the first nine months of 2017 primarily due to the absence of an allowance build in the first nine months of 2017, partially offset by higher losses primarily driven by charge-offs in our taxi medallion lending portfolio due to declines in taxi medallion values.

- Non-Interest Expense: Non-interest expense increased by $45 million to $394 million in the third quarter of 2017 and increased by $152 million to $1.2 billion in the first nine months of 2017 primarily driven by higher operating expenses associated with loan growth and continued investments in technology and infrastructure.
- Loans Held for Investment: Period-end loans held for investment increased by $754 million to $67.7 billion as of September 30, 2017 from December 31, 2016, and average loans held for investment increased by $1.8 billion to $67.9 billion in the third quarter of 2017 compared to the third quarter of 2016 and increased by $2.7 billion to $67.5 billion in the first nine months of 2017 compared to the first nine months of 2016. These increases were driven by growth across our commercial loan portfolios.
- Deposits: Period-end deposits decreased by $1.1 billion to $32.8 billion as of September 30, 2017 from December 31, 2016.
- Net Charge-Off and Nonperforming Metrics: The net charge-off rate increased by 30 basis points to 0.96% in the third quarter of 2017 compared to the third quarter of 2016 and increased by 20 basis points to 0.64% in the first nine months of 2017 compared to the first nine months of 2016 driven by higher charge-offs in our taxi medallion lending portfolio resulting from declines in taxi medallion values and the downgrade of our remaining taxi medallion lending portfolio to nonperforming classification.

The nonperforming loan rate decreased by 37 basis points to 1.16% as of September 30, 2017 from December 31, 2016 primarily due to improved credit risk ratings and charge-offs in our oil and gas portfolio as well as charge-offs in our taxi medallion lending portfolio, partially offset by the downgrade of our remaining taxi medallion lending portfolio to nonperforming classification.

Other Category

Other includes unallocated amounts related to our centralized Corporate Treasury group activities, such as management of our corporate investment portfolio, asset/liability management and certain capital management activities. Other also includes:

- foreign exchange-rate fluctuations on foreign currency-denominated balances;
- unallocated corporate expenses that do not directly support the operations of the business segments or for which the business

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segments are not considered financially accountable in evaluating their performance, such as certain acquisition and restructuring charges;

- a portion of the net benefit (provision) for representation and warranty losses related to continuing operations; and
- offsets related to certain line-item reclassifications.

Table 13 summarizes the financial results of our Other category for the periods indicated.

Table 13: Other Category Results

	Three Months Ended September 30,			Nine Months Ended September 30,		
(Dollars in millions)	2017	2016	Change	2017	2016	Change
Selected income statement data:						
Net interest income	$51	$46	11 %	$128	$162	(21)%
Non-interest income	49	2	**	9	8	13
Total net revenue[(1)]	100	48	108	137	170	(19)
Provision (benefit) for credit losses	11	(1)	**	4	(4)	**
Non-interest expense	161	94	71	289	205	41
Income (loss) from continuing operations before income taxes	(72)	(45)	60	(156)	(31)	**
Income tax provision (benefit)	(142)	(71)	100	(361)	(214)	69
Income from continuing operations, net of tax	$70	$26	169	$205	$183	12

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(1) 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 to the Other category.

** Change is not meaningful.

Net income from continuing operations recorded in the Other category was $70 million and $205 million in the third quarter and first nine months of 2017, respectively, compared to $26 million and $183 million in the third quarter and first nine months of 2016, respectively.

The increase in the third quarter of 2017 was primarily driven by:

- an increased income tax benefit as a result of increased tax-exempt income, tax credits and discrete tax benefits; and
- gains from the sale of investment securities as a result of portfolio repositioning.

These drivers were partially offset by higher operating expenses associated with restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations as well as the realignment of resources supporting our Credit Card and Consumer Banking businesses.

The increase in net income in the first nine months of 2017 was primarily driven by an increased income tax benefit as a result of increased tax-exempt income and tax credits.

This driver was partially offset by:

- higher operating expenses as a result of restructuring activities, which primarily consisted of severance and related benefits pursuant to our ongoing benefit programs, that are the result of exiting certain business activities and locations as well as the realignment of resources supporting our Credit Card and Consumer Banking businesses; and
- lower net interest income primarily driven by offsets from tax credits in our Commercial Banking business, and higher interest expense due to the net effect of higher interest rates, as well as growth and mix changes in our interest-bearing liabilities.

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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” in our 2016 Form 10-K.

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 reserve

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. There have been no changes to our critical accounting policies and estimates since the 2016 Form 10-K.

We provide additional information on our critical accounting policies and estimates under “MD&A—Critical Accounting Policies and Estimates” in our 2016 Form 10-K.

ACCOUNTING CHANGES AND DEVELOPMENTS

See “Note 1—Summary of Significant Accounting Policies” for information on accounting standards adopted in 2017, as well as recently issued accounting standards not yet required to be adopted and the expected impact of these changes in accounting standards.

CAPITAL MANAGEMENT

The level and composition of our capital are determined by multiple factors, including our consolidated regulatory capital requirements and internal risk-based capital assessments such as internal stress testing and economic capital. The level and composition of our capital may also be influenced by rating agency guidelines, subsidiary capital requirements, the business environment, conditions in the financial markets and assessments of potential future losses due to adverse changes in our business and market environments.

Capital Standards and Prompt Corrective Action

We are subject to capital adequacy standards adopted by the Federal Reserve, Office of the Comptroller of the Currency (“OCC”) and Federal Deposit Insurance Corporation (“FDIC”) (collectively, the “Federal Banking Agencies”), including the capital rules that implemented the Basel III capital framework (“Basel III Capital Rule”) developed by the Basel Committee on Banking Supervision (“Basel Committee”). Moreover, the Banks, as insured depository institutions, are subject to prompt corrective action (“PCA”) capital regulations.

In July 2013, the Federal Banking Agencies adopted the Basel III Capital Rule, which, in addition to implementing the Basel III capital framework, also implemented certain Dodd-Frank Act and other capital provisions, and updated the PCA capital framework to reflect the new regulatory capital minimums. The Basel III Capital Rule amended both the Basel I and Basel II Advanced Approaches frameworks, established a new common equity Tier 1 capital requirement and set higher minimum capital ratio requirements. We refer to the amended Basel I framework as the “Basel III Standardized Approach,” and the amended Advanced Approaches framework as the “Basel III Advanced Approaches.”

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At the end of 2012, we met one of the two independent eligibility criteria set by banking regulators for becoming subject to the Advanced Approaches capital rules. As a result, we have undertaken a multi-year process of implementing the Advanced Approaches regime for calculating risk-weighted assets and regulatory capital levels. We entered parallel run under Advanced Approaches on January 1, 2015, during which we are required to calculate capital ratios under both the Basel III Standardized Approach and the Basel III Advanced Approaches, though we continue to use the Standardized Approach for purposes of meeting regulatory capital requirements.

The Basel Committee has proposed, but has not finalized, changes to the Basel III capital framework. There is uncertainty around any final changes that the Basel Committee might adopt and which of those changes thereafter may be adopted in the United States. Additionally, the Federal Banking Agencies have recently proposed, but have not finalized, certain limited changes to the Basel III Capital Rule. There is uncertainty regarding how any of those changes may impact the Basel III Standardized Approach and the Basel III Advanced Approaches.

The Market Risk Rule supplements both the Basel III Standardized Approach and the Basel III Advanced Approaches by requiring institutions subject to the Market Risk Rule to adjust their risk-based capital ratios to reflect the market risk in their trading portfolios. The Market Risk Rule generally 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. See "MD&A—Market Risk Profile" below for additional information. We began reporting risk-based capital ratios including market risk-weighted assets for the Company and CONA pursuant to the Market Risk Rule for positions covered by such rule in the third quarter of 2016. This change did not have a material impact on the risk-based capital ratios of these two entities. As of September 30, 2017, COBNA is not subject to the Market Risk Rule.

For additional information about the capital adequacy guidelines we are subject to, see "Part I—Item 1. Business—Supervision and Regulation" in our 2016 Form 10-K.

Table 14 provides a comparison of our regulatory capital ratios under the Basel III Standardized Approach subject to transition provisions, the regulatory minimum capital adequacy ratios and the PCA well-capitalized level for each ratio, where applicable, as of September 30, 2017 and December 31, 2016.

Table 14: Capital Ratios under Basel III[(1)(2)]

	September 30, 2017			December 31, 2016		
	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized	Capital Ratio	Minimum Capital Adequacy	Well-Capitalized
Capital One Financial Corp:						
Common equity Tier 1 capital[(3)]	10.7%	4.5%	N/A	10.1%	4.5%	N/A
Tier 1 capital[(4)]	12.2	6.0	6.0%	11.6	6.0	6.0%
Total capital[(5)]	14.8	8.0	10.0	14.3	8.0	10.0
Tier 1 leverage[(6)]	10.5	4.0	N/A	9.9	4.0	N/A
Supplementary leverage[(7)]	9.0	N/A	N/A	8.6	N/A	N/A
Capital One Bank (USA), N.A.:						
Common equity Tier 1 capital[(3)]	12.8%	4.5%	6.5%	12.0%	4.5%	6.5%
Tier 1 capital[(4)]	12.8	6.0	8.0	12.0	6.0	8.0
Total capital[(5)]	15.5	8.0	10.0	14.8	8.0	10.0
Tier 1 leverage[(6)]	11.7	4.0	5.0	10.8	4.0	5.0
Supplementary leverage[(7)]	9.6	N/A	N/A	8.9	N/A	N/A
Capital One, N.A.:						
Common equity Tier 1 capital[(3)]	12.2%	4.5%	6.5%	10.6%	4.5%	6.5%
Tier 1 capital[(4)]	12.2	6.0	8.0	10.6	6.0	8.0
Total capital[(5)]	13.5	8.0	10.0	11.8	8.0	10.0
Tier 1 leverage[(6)]	8.9	4.0	5.0	7.7	4.0	5.0
Supplementary leverage[(7)]	8.0	N/A	N/A	6.9	N/A	N/A

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(1) Capital ratios are calculated based on the Basel III Standardized Approach framework, subject to applicable transition provisions, such as the inclusion of the unrealized gains and losses on securities available for sale included in accumulated other comprehensive income ("AOCI") and adjustments related to intangible assets other than goodwill. The inclusion of AOCI and the adjustments related to intangible assets are phased-in at 60% for 2016, 80% for 2017 and 100% for 2018.

(2) Ratios as of September 30, 2017 are preliminary. As we continue to validate our data, the calculations are subject to change until we file our September 30, 2017 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

(3) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.

(4) Tier 1 capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.

(5) Total capital ratio is a regulatory capital measure calculated based on total capital divided by risk-weighted assets.

(6) Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.

(7) Supplementary leverage ratio ("SLR") is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

In addition to the above statutory capital ratios, we also disclose a non-GAAP TCE ratio in "MD&A—Summary of Selected Financial Data." This capital measure is not necessarily comparable to similarly-titled capital measures reported by other companies. We provide information on the calculation of this ratio in "MD&A—Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures."

The Company exceeded the minimum capital requirements and each of the Banks exceeded the minimum regulatory requirements and were well capitalized under PCA requirements as of both September 30, 2017 and December 31, 2016.

The Basel III Capital Rule requires banks to maintain a capital conservation buffer of 2.5% above the regulatory minimum ratios composed of common equity Tier 1 capital. The capital conservation buffer is being phased in over a transition period that commenced on January 1, 2016 and will be fully phased in on January 1, 2019. The capital conservation buffer is 1.25% in 2017.

For banks subject to the Advanced Approaches, including the Company and the Banks, the capital conservation buffer may be supplemented by an incremental countercyclical capital buffer of up to 2.5% (once fully phased-in) composed of common equity Tier 1 capital and set at the discretion of the Federal Banking Agencies. As of September 30, 2017, the countercyclical capital buffer is zero percent in the United States. A determination to increase the countercyclical capital buffer generally would be effective twelve months after the announcement of such an increase, unless the Federal Banking Agencies set an earlier effective date. The countercyclical capital buffer, if set to an amount greater than zero percent, would be subject to the same transition period as the capital conservation buffer, which commenced on January 1, 2016.

For 2017, the minimum capital requirement plus capital conservation buffer and countercyclical capital buffer for common equity Tier 1 capital, Tier 1 capital and total capital ratios is 5.75%, 7.25% and 9.25%, respectively, for the Company and the Banks. A common equity Tier 1 capital ratio, Tier 1 capital ratio, or total capital ratio below the applicable regulatory minimum ratio plus the applicable capital conservation buffer and the applicable countercyclical buffer (if set to an amount greater than zero percent) might restrict a bank's ability to distribute capital and make discretionary bonus payments. As of September 30, 2017, the Company and each of the Banks are all above the applicable combined thresholds.

Additionally, banks designated as global systemically important banks ("G-SIBs") are subject to an additional regulatory capital surcharge above the combined capital conservation and countercyclical capital buffers established by the Basel III Capital Rule. We are currently not designated as a G-SIB and therefore not subject to this surcharge.

The following table compares our common equity Tier 1 capital and risk-weighted assets as of September 30, 2017, subject to applicable transition provisions, to our estimated fully phased-in common equity Tier 1 capital and risk-weighted assets, as it applies for Advanced Approaches banks such as ourselves that have not yet exited parallel run. Our estimated common equity Tier 1 capital, risk-weighted assets and common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach are non-GAAP financial measures that we believe provide useful information in evaluating compliance with regulatory capital requirements that are not effective yet. They are calculated based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and are subject to change based on changes to future regulations and interpretations. As we continue to engage with our regulators, there could be further changes to the calculation.

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Table 15: Regulatory Capital Reconciliations between Basel III Transition to Fully Phased-in[1]

(Dollars in millions)	September 30, 2017
Common equity Tier 1 capital under Basel III Standardized Approach	$ 31,298
Adjustments related to AOCI[2]	(84)
Adjustments related to intangibles[2]	(93)
Other adjustments[2]	(1)
Estimated common equity Tier 1 capital under fully phased-in Basel III Standardized Approach	$ 31,120
Risk-weighted assets under Basel III Standardized Approach[3]	$ 292,041
Adjustments for fully phased-in Basel III Standardized Approach[4]	1,101
Estimated risk-weighted assets under fully phased-in Basel III Standardized Approach	$ 293,142
Estimated common equity Tier 1 capital ratio under fully phased-in Basel III Standardized Approach[5]	10.6 %

(1) Estimated common equity Tier 1 capital, risk-weighted assets, and common equity Tier 1 capital ratio under the fully phased-in Basel III Standardized Approach are non-GAAP financial measures.

(2) Assumes adjustments are fully phased-in.

(3) Includes credit and market risk-weighted assets.

(4) Adjustments include higher risk weights for items that are included in capital based on the threshold deduction approach, such as mortgage servicing assets and deferred tax assets. The adjustments also include removal of risk weights for items that are deducted from common equity Tier 1 capital.

(5) Estimated common equity Tier 1 capital ratio is calculated by dividing estimated common equity Tier 1 capital by estimated risk-weighted assets, which are both calculated under the Basel III Standardized Approach, as it applies when fully phased-in for Advanced Approaches banks that have not yet exited parallel run.

Under the Basel III Capital Rule, when we complete our parallel run for the Advanced Approaches, our minimum risk-based capital requirement will be determined by the greater of our risk-weighted assets under the Basel III Standardized Approach and the Basel III Advanced Approaches. See "Part I—Item 1. Business—Supervision and Regulation" in our 2016 Form 10-K for additional information. Once we exit parallel run, based on clarification of the Basel III Capital Rule from our regulators, any amount by which our expected credit losses exceed eligible credit reserves, as each term is defined under the Basel III Capital Rule, will be deducted from our Basel III Standardized Approach numerator, subject to transition provisions. Inclusive of this impact, based on current capital rules and our business mix, we estimate that our Basel III Advanced Approaches ratios will be lower than our Basel III Standardized Approach ratios. However, there is uncertainty whether this will remain the case in light of potential changes to the United States capital rules.

Capital Planning and Regulatory Stress Testing

On June 28, 2017, the Federal Reserve completed its 2017 Comprehensive Capital Analysis and Review ("CCAR") and did not object to our proposed capital plan. As a condition to not objecting to the capital plan, the Federal Reserve has required us to submit a revised capital plan by December 28, 2017 to address certain weaknesses it identified in our capital planning process. If the Federal Reserve objects to the resubmitted capital plan, it may restrict subsequent capital distributions. For the description of the regulatory capital planning rules we are subject to, see "Part I—Item 1. Business—Supervision and Regulation" in our 2016 Form 10-K. During the intervening period we are allowed to proceed with the actions in our capital plan. The Board of Directors authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the second quarter of 2018, in addition to share repurchases related to employee compensation. The Board of Directors also authorized the quarterly dividend on our common stock of $0.40 per share.

Dividend Policy and Stock Purchases

We paid common stock dividends of $0.40 per share in the third quarter of 2017. The following table summarizes the dividends paid per share on our various preferred stock series in the first nine months of 2017.

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Table 16: Preferred Stock Dividends Paid Per Share

Series	Description	Issuance Date	Per Annum Dividend Rate	Dividend Frequency	2017 Q3	Q2	Q1
Series B	6.00% Non-Cumulative	August 20, 2012	6.00%	Quarterly	$ 15.00	$ 15.00	$ 15.00
Series C	6.25% Non-Cumulative	June 12, 2014	6.25	Quarterly	15.63	15.63	15.63
Series D	6.70% Non-Cumulative	October 31, 2014	6.70	Quarterly	16.75	16.75	16.75
Series E	Fixed-to-Floating Rate Non-Cumulative	May 14, 2015	5.55% through 5/31/2020; 3-mo. LIBOR+ 380 bps thereafter	Semi-Annually through 5/31/2020; Quarterly thereafter	—	27.75	—
Series F	6.20% Non-Cumulative	August 24, 2015	6.20	Quarterly	15.50	15.50	15.50
Series G	5.20% Non-Cumulative	July 29, 2016	5.20	Quarterly	13.00	13.00	13.00
Series H	6.00% Non-Cumulative	November 29, 2016	6.00	Quarterly	15.00	15.00	15.33

The declaration and payment of dividends to our stockholders, as well as the amount thereof, are subject to the discretion of our Board of Directors and depend upon our results of operations, financial condition, capital levels, cash requirements, future prospects and other factors deemed relevant by the Board of Directors. As a bank holding company ("BHC"), our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. Regulatory restrictions exist that limit the ability of the Banks to transfer funds to our BHC. As of September 30, 2017, funds available for dividend payments from COBNA and CONA were $4.6 billion and $2.0 billion, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

Consistent with our 2017 Stock Repurchase Program, our Board of Directors authorized the repurchase of up to $1.85 billion of shares of common stock beginning in the third quarter of 2017 through the end of the second quarter of 2018.

The timing and exact amount of any future common stock repurchases will depend on various factors, including market conditions, opportunities for growth, our capital position and the amount of retained earnings. Our 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. For additional information on dividends and stock repurchases, see "Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfer of Funds" in our 2016 Form 10-K.

RISK MANAGEMENT

Risk Framework

We use a risk framework to provide an overall enterprise-wide approach for effectively managing risk. We execute against our risk framework with the "Three Lines of Defense" risk management model to demonstrate and structure the roles, responsibilities and accountabilities in the organization for taking and managing risk.

The "First Line of Defense" is comprised of the business areas that through their day-to-day business activities take risk on our behalf. As the business owner, the first line is responsible for identifying, assessing, managing and controlling that risk. This principle places ultimate accountability for the management of risks and ownership of risk decisions with the CEO and business heads. The "Second Line of Defense" provides oversight of first line risk taking and management, and is primarily comprised of our Risk Management organization. The second line assists in determining risk appetite and the strategies, policies and structures for managing risks. The second line is both an "expert advisor" to the first line and an "effective challenger" of first line risk activities. The "Third Line of Defense" is comprised of our Internal Audit and Credit Review functions. The third line provides independent and objective assurance to senior management and to the Board of Directors that first and second line risk management and internal control systems and its governance processes are well-designed and working as intended.

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The risk framework is also used to guide design of risk programs and performance of risk activity within each risk category and across the entire enterprise.

There are eight elements that comprise the risk framework:

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

We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under “MD&A—Risk Management” in our 2016 Form 10-K.

CREDIT RISK PROFILE

Our loan portfolio accounts for the substantial majority of our credit risk exposure. Our lending activities are governed under our credit policy and are subject to independent review and approval. Below we provide information about the composition of our loan portfolio, key concentrations and credit performance metrics.

We also engage in certain non-lending activities that may give rise to credit and counterparty settlement risk, including the purchase of securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, short-term advances on syndication activity (including bridge financing transactions we have underwritten), certain operational cash balances in other financial institutions, foreign exchange transactions and customer overdrafts. We provide additional information on credit risk related to our investment securities portfolio under “MD&A—Consolidated Balance Sheets Analysis—Investment Securities” and credit risk related to derivative transactions in “Note 9—Derivative Instruments and Hedging Activities.”

Loans Held for Investment Portfolio Composition

We provide a variety of lending products. Our primary products include credit cards, auto loans, home loans and commercial lending products. For information on our lending policies and procedures, including our underwriting criteria for our primary loan products, see “MD&A—Credit Risk Profile” in our 2016 Form 10-K.

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale. Table 17 presents the composition of our portfolio of loans held for investment, including PCI loans, by portfolio segment as of September 30, 2017 and December 31, 2016. Table 17 and the credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value and totaled $1.6 billion and $1.0 billion as of September 30, 2017 and December 31, 2016, respectively.

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Table 17: Loans Held for Investment Portfolio Composition

(Dollars in millions)	September 30, 2017 Loans	% of Total		December 31, 2016 Loans	% of Total	
Credit Card:						
Domestic credit card	$99,981	39.6	%	$97,120	39.6	%
International card businesses	9,149	3.6		8,432	3.4	
Total credit card	109,130	43.2		105,552	43.0	
Consumer Banking:						
Auto	53,290	21.1		47,916	19.5	
Home loan	18,820	7.5		21,584	8.8	
Retail banking	3,454	1.4		3,554	1.4	
Total consumer banking	75,564	30.0		73,054	29.7	
Commercial Banking:						
Commercial and multifamily real estate	27,944	11.1		26,609	10.9	
Commercial and industrial	39,306	15.5		39,824	16.2	
Total commercial lending	67,250	26.6		66,433	27.1	
Small-ticket commercial real estate	420	0.2		483	0.2	
Total commercial banking	67,670	26.8		66,916	27.3	
Other loans	58	—		64	—	
Total loans held for investment	$252,422	100.0	%	$245,586	100.0	%

Commercial Loans

For purposes of portfolio risk management, we aggregate our commercial loan portfolio according to market segmentation primarily based on standard industry codes. Table 18 summarizes our commercial loans held for investment portfolio by industry classification as of September 30, 2017 and December 31, 2016.

Table 18: Commercial Loans by Industry[(1)]

(Percentage of portfolio)	September 30, 2017		December 31, 2016	
Real estate	41	%	40	%
Healthcare	14		14	
Finance and insurance	13		13	
Business services	5		5	
Educational services	4		4	
Oil and gas[(2)]	4		4	
Public administration	4		4	
Retail trade	3		4	
Construction and land	3		3	
Transportation[(3)]	1		2	
Other	8		7	
Total	100	%	100	%

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(1) Industry categories are based on our interpretation of the North American Industry Classification System codes as they pertain to each individual loan.

(2) In addition to loans outstanding, we also have unfunded lending commitments of approximately $3.2 billion and $2.9 billion to oil and gas companies as of September 30, 2017 and December 31, 2016, respectively. For information on our total unfunded lending commitments see "Note 14—Commitments,

Contingencies, Guarantees and Others."

(3) Includes our taxi medallion lending portfolio among other portfolios.

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Purchased Credit-Impaired Loans

Our portfolio of loans includes certain of our consumer and commercial loans acquired in business acquisitions that were recorded at fair value at acquisition and subsequently accounted for using the guidance for accounting for PCI loans and debt securities, which is based upon expected cash flows. These PCI loans totaled $12.0 billion as of September 30, 2017 compared to $15.1 billion as of December 31, 2016. See "MD&A—Glossary and Acronyms" for the definition of "PCI loans."

The difference between the fair value at acquisition and expected cash flows represents the accretable yield, which is recognized in interest income over the life of the loans. The difference between the contractual payments on the loans and expected cash flows represents the nonaccretable difference, or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. We regularly update our estimate of expected principal and interest to be collected from these loans and evaluate the results for each accounting pool that was established at acquisition based on loans with common risk characteristics. Probable decreases in expected cash flows would trigger the recognition of an allowance for loan and lease losses through our provision for credit losses. Probable and significant increases in expected cash flows would first reverse any previously recorded allowance for loan and lease losses established subsequent to acquisition, with any remaining increase in expected cash flows recognized prospectively in interest income over the remaining estimated life of the underlying loans. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for additional information on PCI loans that are accounted for based on expected cash flows.

Home Loans

The majority of our home loan portfolio are PCI loans acquired from the ING Direct and CCB acquisitions, representing 61% and 67% of our total home loan portfolio as of September 30, 2017 and December 31, 2016, respectively. See "MD&A—Glossary and Acronyms" for the definition of "ING Direct acquisition" and "CCB." The expected cash flows for the PCI loans in our home loan portfolio are significantly impacted by future expectations of home prices and interest rates. Decreases in expected cash flows that result from declining conditions, particularly associated with these variables, could result in an increase in the allowance for loan and lease losses and reduction in accretable yield. Charge-offs on these loans are not recorded until the expected credit losses within the nonaccretable difference are depleted. In addition, PCI loans are not classified as delinquent or nonperforming, as we expect to collect our net investment in these loans and the nonaccretable difference is expected to absorb the majority of the losses associated with these loans.

Table 19 presents the break out of our total home loan portfolio by lien priority for PCI loans and remaining loans.

Table 19: Home Loans—Risk Profile by Lien Priority

	September 30, 2017					
	Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	$6,414	34.1%	$11,193	59.5%	$17,607	93.6 %
2nd lien	976	5.2	237	1.2	1,213	6.4
Total	$7,390	39.3%	$11,430	60.7%	$18,820	100.0%

	December 31, 2016					
	Loans		PCI Loans		Total Home Loans	
(Dollars in millions)	Amount	% of Total	Amount	% of Total	Amount	% of Total
Lien type:						
1st lien	$6,182	28.7%	$14,159	65.5%	$20,341	94.2 %

2nd lien	974	4.5	269	1.3	1,243	5.8
Total	$7,156	33.2%	$14,428	66.8%	$21,584	100.0%

See “Note 4—Loans” in this Report for additional credit quality information. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K and in this Report for information on our accounting policies for PCI loans, delinquent loans, nonperforming loans, net charge-offs and troubled debt restructurings (“TDRs”) for each of our loan categories.

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Table 20 provides a sensitivity analysis of PCI loans in our home loan portfolio as of September 30, 2017. The analysis reflects a hypothetical decline of 10% in the home price index and its impact on lifetime future cash flow expectations, accretable yield and allowance for loan and lease losses. Any significant economic events or variables not considered could impact the results that are presented below.

Table 20: Sensitivity Analysis—PCI Home Loans[1]

(Dollars in millions)	September 30, 2017	Estimated Impact Increase (Decrease)
Expected cash flows	$ 13,678	$ (16)
Accretable yield	2,281	60
Allowance for loan and lease losses	33	76

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(1) Changes in the accretable yield would be recognized in interest income in our consolidated statements of income over the life of the loans. Changes in the allowance for loan and lease losses would be recognized immediately in the provision for credit losses in our consolidated statements of income.

Credit Risk Measurement

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

We underwrite most consumer loans using proprietary models, which are typically based on credit bureau data, including borrower credit scores, along with application information and, where applicable, collateral and deal structure data. We continuously adjust our management of credit lines and collection strategies based on customer behavior and risk profile changes. We also use borrower credit scores for subprime classification, for competitive benchmarking and, in some cases, to drive product segmentation decisions.

The following table provides details on the credit scores of our domestic credit card and auto loans held for investment portfolios as of September 30, 2017, December 31, 2016 and September 30, 2016.

Table 21: Credit Score Distribution

(Percentage of portfolio)	September 30, 2017		December 31, 2016		September 30, 2016	
Domestic credit card—Refreshed FICO scores[1]:						
Greater than 660	65	%	64	%	64	%
660 or below	35		36		36	
Total	100	%	100	%	100	%
Auto—At origination FICO scores[2]:						
Greater than 660	51	%	52	%	51	%
621 - 660	18		17		17	
620 or below	31		31		32	
Total	100	%	100	%	100	%

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(1) Domestic card credit scores generally represent FICO scores. These scores are obtained from one of the major credit bureaus at origination and are refreshed monthly thereafter. We approximate non-FICO credit scores to comparable FICO scores for consistency purposes. Balances for which no credit score is available or the credit score is invalid are included in the 660 or below category.

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

We present information in the section below on the credit performance of our loan portfolio, including the key metrics we use in tracking changes in the credit quality of our loan portfolio.

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See "Note 4—Loans" in this Report for additional credit quality information. Also, see "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K and in this Report for information on our accounting policies for delinquent and nonperforming loans, net charge-offs and TDRs for each of our loan categories.

Delinquency Rates

We consider the entire balance of an account to be delinquent if the minimum required payment is not received by the customer's due date, measured at the reporting date. Our 30+ day delinquency metrics include all loans held for investment that are 30 or more days past due, whereas our 30+ day performing delinquency metrics include loans that are 30 or more days past due but are currently classified as performing and accruing interest. The 30+ day delinquency and 30+ day performing delinquency metrics are the same for domestic credit card loans, as we continue to classify loans as performing until the account is charged off, typically when the account is 180 days past due. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories. We provide additional information on our credit quality metrics above under "MD&A—Business Segment Financial Performance."

Table 22 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, including PCI loans, by portfolio segment, as of September 30, 2017 and December 31, 2016.

Table 22: 30+ Day Delinquencies

	September 30, 2017				December 31, 2016			
	30+ Day Performing Delinquencies		30+ Day Delinquencies		30+ Day Performing Delinquencies		30+ Day Delinquencies	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Credit Card:								
Domestic credit card[2]	$3,940	3.94 %	$3,940	3.94 %	$3,839	3.95 %	$3,839	3.95 %
International card businesses	323	3.54	339	3.71	283	3.36	317	3.76
Total credit card[2]	4,263	3.91	4,279	3.92	4,122	3.91	4,156	3.94
Consumer Banking:								
Auto	3,044	5.71	3,345	6.28	2,931	6.12	3,154	6.58
Home loan[3]	33	0.17	96	0.51	43	0.20	205	0.95
Retail banking	25	0.73	46	1.33	25	0.70	49	1.39
Total consumer banking[3]	3,102	4.10	3,487	4.61	2,999	4.10	3,408	4.67
Commercial Banking:								
Commercial and multifamily real estate	16	0.06	80	0.28	20	0.07	45	0.17
Commercial and industrial	3	0.01	333	0.85	36	0.09	408	1.02
Total commercial lending	19	0.03	413	0.61	56	0.08	453	0.68
Small-ticket commercial real estate	2	0.43	8	2.01	6	1.31	10	2.14
Total commercial banking	21	0.03	421	0.62	62	0.09	463	0.69
Other loans	1	2.56	4	6.08	2	3.66	8	12.90
Total[2]	$7,387	2.93	$8,191	3.24	$7,185	2.93	$8,035	3.27

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(1) The 30+ day performing and 30+ day delinquency rates are calculated by loan category by dividing 30+ day delinquent loans as of the end of the period by period-end loans held for investment for the specified loan category, including PCI loans as applicable.

(2) On September 25, 2017, we completed the Cabela's acquisition. The metrics reported above as of September 30, 2017 include the impact of this acquisition. Excluding this impact the total credit card and domestic credit card 30+ day performing delinquency rate as of September 30, 2017 would have been 4.10% and 4.15%, respectively, and the total 30+ day performing delinquency rate would have been 2.98%.

(3) Excluding the impact of PCI loans, the 30+ day performing delinquency rate for our home loan and total consumer banking portfolios was 0.44% and 4.84%, respectively, as of September 30, 2017, and 0.59% and 5.12%, respectively, as of December 31, 2016. Excluding the impact of PCI loans, the 30+ day delinquency rate for our home loan and total consumer banking portfolios was 1.30% and 5.44%, respectively, as of September 30, 2017, and 2.86% and 5.82%, respectively, as of December 31, 2016.

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Table 23 presents an aging and geography of 30+ day delinquent loans as of September 30, 2017 and December 31, 2016.

Table 23: Aging and Geography of 30+ Day Delinquent Loans

(Dollars in millions)	September 30, 2017 Amount	% of Total Loans[1]		December 31, 2016 Amount	% of Total Loans[1]	
Delinquency status:						
30 – 59 days	$3,608	1.43	%	$3,466	1.41	%
60 – 89 days	2,008	0.79		1,920	0.78	
> 90 days	2,575	1.02		2,649	1.08	
Total	$8,191	3.24	%	$8,035	3.27	%
Geographic region:						
Domestic	$7,852	3.11	%	$7,718	3.14	%
International	339	0.13		317	0.13	
Total	$8,191	3.24	%	$8,035	3.27	%
Total loans held for investment	$252,422	100.00	%	$245,586	100.00	%

(1) Delinquency rates are calculated by dividing loans in each delinquency status category or geographic region as of the end of the period by the total period-end loans held for investment, including PCI loans.

Table 24 summarizes loans that were 90+ days delinquent as to interest or principal, and still accruing interest as of September 30, 2017 and December 31, 2016. These loans consist primarily of credit card accounts between 90 days and 179 days past due. As permitted by regulatory guidance issued by the Federal Financial Institutions Examination Council ("FFIEC"), we continue to accrue interest and fees on domestic credit card loans through the date of charge-off, which is typically in the period the account becomes 180 days past due. While domestic credit card loans typically remain on accrual status until the loan is charged off, we reduce the balance of our credit card receivables by the amount of finance charges and fees billed but not expected to be collected and exclude this amount from revenue.

Table 24: 90+ Day Delinquent Loans Accruing Interest

(Dollars in millions)	September 30, 2017 Amount	% of Total Loans[1]		December 31, 2016 Amount	% of Total Loans[1]	
Loan category:						
Credit card	$1,966	1.80	%	$1,936	1.83	%
Consumer banking	—	—		—	—	
Commercial banking	4	0.01		—	—	
Total	$1,970	0.78		$1,936	0.79	
Geographic region:						
Domestic	$1,850	0.76		$1,840	0.78	
International	120	1.31		96	1.14	
Total	$1,970	0.78		$1,936	0.79	

(1) Delinquency rates are calculated by dividing 90+ day delinquent loans accruing interest by period-end loans held for investment, including PCI loans, for the specified loan category.

Nonperforming Loans and Nonperforming Assets

Nonperforming assets consist of nonperforming loans, foreclosed properties and repossessed assets, and the net realizable value of certain partially charged off auto loans. Nonperforming loans include loans that have been placed on nonaccrual status. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

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Table 25 presents comparative information on nonperforming loans, by portfolio segment, and other nonperforming assets as of September 30, 2017 and December 31, 2016. Nonperforming loan rates are calculated based on nonperforming loans for each category divided by period-end total loans held for investment for each respective category. We do not classify loans held for sale as nonperforming, as they are recorded at the lower of cost or fair value. We provide additional information on our credit quality metrics above under "MD&A—Business Segment Financial Performance."

Table 25: Nonperforming Loans and Other Nonperforming Assets[(1)]

	September 30, 2017		December 31, 2016	
(Dollars in millions)	Amount	% of Total Loans HFI	Amount	% of Total Loans HFI
Nonperforming loans held for investment:				
Credit Card:				
International card businesses	$25	0.28 %	$42	0.50 %
Total credit card	25	0.02	42	0.04
Consumer Banking:				
Auto	346	0.65	223	0.47
Home loan[(2)]	158	0.84	273	1.26
Retail banking	33	0.97	31	0.86
Total consumer banking[(2)]	537	0.71	527	0.72
Commercial Banking:				
Commercial and multifamily real estate	64	0.23	30	0.11
Commercial and industrial	717	1.82	988	2.48
Total commercial lending	781	1.16	1,018	1.53
Small-ticket commercial real estate	7	1.59	4	0.85
Total commercial banking	788	1.16	1,022	1.53
Other loans	4	7.87	8	13.10
Total nonperforming loans held for investment[(3)]	$1,354	0.54	$1,599	0.65
Other nonperforming assets:[(4)]				
Foreclosed property	$79	0.03	$75	0.03
Other assets[(5)]	86	0.03	205	0.08
Total other nonperforming assets	165	0.06	280	0.11
Total nonperforming assets	$1,519	0.60	$1,879	0.76

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(1) We recognized interest income for loans classified as nonperforming of $38 million and $28 million in the first nine months of 2017 and 2016, respectively. Interest income foregone related to nonperforming loans was $43 million and $49 million in the first nine months of 2017 and 2016, respectively. Foregone interest income represents the amount of interest income that would have been recorded during the period for nonperforming loans as of the end of the period had the loans performed according to their contractual terms.

(2) Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 2.13% and 0.84%, respectively, as of September 30, 2017, compared to 3.81% and 0.90%, respectively, as of December 31, 2016.

(3) Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.89% and 1.08% as of September 30, 2017 and December 31, 2016, respectively.

(4)

The denominator used in calculating the nonperforming asset ratios consists of total loans held for investment and total other nonperforming assets.

(5) Includes the net realizable value of certain partially charged off auto loans and repossessed assets obtained in satisfaction of auto loans.

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Net Charge-Offs

Net charge-offs consist of the unpaid principal balance of loans held for investment that we determine to be uncollectible, net of recovered amounts. We charge off loans as a reduction to the allowance for loan and lease losses when we determine the loan is uncollectible and record subsequent recoveries of previously charged off amounts as increases to the allowance for loan and lease losses. Uncollectible finance charges and fees are reversed through revenue and certain fraud losses are recorded in other non-interest expense. Generally, costs to recover charged-off loans are recorded as collection expenses and included in our consolidated statements of income as a component of other non-interest expense as incurred. Our charge-off policy for loans varies based on the loan type. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K and in this Report for information on our charge-off policy for each of our loan categories.

Table 26 presents our net charge-off amounts and rates, by portfolio segment, in the third quarter and first nine months of 2017 and 2016.

Table 26: Net Charge-Offs (Recoveries)

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Credit Card:								
Domestic credit card[2]	$1,087	4.64 %	$841	3.74 %	$3,455	4.96 %	$2,602	3.99 %
International card businesses	68	3.08	65	3.18	227	3.60	203	3.32
Total credit card[2]	1,155	4.51	906	3.70	3,682	4.85	2,805	3.93
Consumer Banking:								
Auto	257	1.96	210	1.85	671	1.77	508	1.55
Home loan[3]	1	0.02	1	0.03	5	0.03	9	0.05
Retail banking	18	2.10	16	1.75	50	1.91	39	1.46
Total consumer banking[3]	276	1.47	227	1.26	726	1.30	556	1.04
Commercial Banking:								
Commercial and multifamily real estate	0	(0.01)	0	0.01	2	0.01	(2)	(0.01)
Commercial and industrial	163	1.64	107	1.09	319	1.07	214	0.74
Total commercial lending	163	0.97	107	0.66	321	0.64	212	0.44
Small-ticket commercial real estate	0	0.12	1	0.74	1	0.33	2	0.39
Total commercial banking	163	0.96	108	0.66	322	0.64	214	0.44
Other loans	12	86.90	(1)	(2.59)	4	9.20	(2)	(3.19)
Total net charge-offs	$1,606	2.61	$1,240	2.10	$4,734	2.60	$3,573	2.06
Average loans held for investment	$245,822		$235,843		$243,205		$231,004	

(1) Net charge-off (recovery) rates are calculated by dividing annualized net charge-offs by average loans held for investment for the period for each loan category.

(2) On September 25, 2017, we completed the Cabela’s acquisition. The domestic credit card metrics reported above for the three and nine months ended September 30, 2017 include the impact of this acquisition. Excluding this impact (i) the total credit card and domestic credit card net charge-off rate for the three months ended September 30, 2017 would have been 4.52% and 4.66%, respectively; and (ii) the total credit card and domestic credit card net charge-off rate for the nine months ended September 30, 2017 would have been 4.85% and 4.97%, respectively.

(3) Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.06% and 1.74%, respectively, for the three months ended September 30, 2017, compared to 0.08% and 1.62%, respectively, for the three months ended September 30, 2016; and 0.08% and 1.57%, respectively, for the nine months ended September 30, 2017, compared to 0.18% and 1.37%, respectively, for the

nine months ended September 30, 2016.

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Troubled Debt Restructurings

As part of our loss mitigation efforts, we may provide short-term (three to twelve months) or long-term (greater than twelve months) modifications to a borrower experiencing financial difficulty to improve long-term collectability of the loan and to avoid the need for foreclosure or repossession of collateral.

Table 27 presents our recorded investment of loans modified in TDRs as of September 30, 2017 and December 31, 2016, which excludes loan modifications that do not meet the definition of a TDR, and PCI loans, which we track and report separately.

Table 27: Troubled Debt Restructurings

(Dollars in millions)	September 30, 2017			December 31, 2016		
	Amount	% of Total Modifications		Amount	% of Total Modifications	
Credit card	$777	32.3	%	$715	29.0	%
Consumer banking:						
Auto	487	20.2		523	21.2	
Home loan	190	7.9		241	9.8	
Retail banking	40	1.7		43	1.7	
Total consumer banking	717	29.8		807	32.7	
Commercial banking	911	37.9		944	38.3	
Total	$2,405	100.0	%	$2,466	100.0	%
Status of TDRs:						
Performing	$1,761	73.2	%	$1,631	66.1	%
Nonperforming	644	26.8		835	33.9	
Total	$2,405	100.0	%	$2,466	100.0	%

In the Credit Card business, the majority of our credit card loans modified in TDRs involve reducing the interest rate on the account and placing the customer on a fixed payment plan not exceeding 60 months. The effective interest rate in effect immediately prior to the loan modification is used as the effective interest rate for purposes of measuring impairment using the present value of expected cash flows. If the customer does not comply with the modified payment terms, then the credit card loan agreement may revert to its original payment terms, likely resulting in any loan outstanding reflected in the appropriate delinquency category, and charged off in accordance with our standard charge-off policy.

In the Consumer Banking business, the majority of our loans modified in TDRs receive an extension, an interest rate reduction or principal reduction, or a combination of the three. In addition, TDRs also occur in connection with bankruptcy of the borrower. In certain bankruptcy discharges, the loan is written down to the collateral value and the charged off amount is reported as principal reduction. Their impairment is determined using the present value of expected cash flows or a collateral evaluation for certain auto and home loans where the collateral value is lower than the recorded investment.

In the Commercial Banking business, the majority of loans modified in TDRs receive an extension, with a portion of these loans receiving an interest rate reduction or a gross balance reduction. The impairment on modified commercial loans is generally determined based on the underlying collateral value. We provide additional information on modified loans accounted for as TDRs, including the performance of those loans subsequent to modification, in “Note 4—Loans.”

Impaired Loans

A loan is considered impaired when, based on current information and events, it is probable that we will be unable to collect all amounts due from the borrower in accordance with the original contractual terms of the loan. Generally, we report loans as impaired based on the method for measuring impairment in accordance with applicable accounting guidance. Loans defined as individually impaired include larger-balance commercial nonperforming loans and TDRs. Loans held for sale are not reported as impaired, as these loans are recorded at lower of cost or fair value. Impaired loans also exclude PCI loans accounted for based on expected cash flows because this accounting methodology takes into consideration future credit losses expected to be incurred.

Impaired loans, including TDRs, totaled $2.9 billion and $3.2 billion as of September 30, 2017 and December 31, 2016, respectively. Modified TDR loans accounted for $2.4 billion and $2.5 billion of impaired loans as of September 30, 2017 and December 31,

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2016, respectively. We provide additional information on our impaired loans, including the allowance for loan and lease losses established for these loans, in “Note 4—Loans” and “Note 5—Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments.”

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments

Our allowance for loan and lease losses represents management’s best estimate of incurred loan and lease credit losses inherent to our held for investment portfolio as of each balance sheet date. The allowance for loan and lease losses is increased through the provision for credit losses and reduced by net charge-offs. We provide additional information on the methodologies and key assumptions used in determining our allowance for loan and lease losses under “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K.

Table 28 presents changes in our allowance for loan and lease losses and reserve for unfunded lending commitments for the third quarter and first nine months of 2017 and 2016, and details by portfolio segment for the provision for credit losses, charge-offs and recoveries.

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Table 28: Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Activity

	Three Months Ended September 30, 2017									
	Credit Card			Consumer Banking						
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:										
Balance as of June 30, 2017	$4,825	$ 385	$5,210	$1,066	$59	$ 74	$1,199	$ 758	$ 3	$7,170
Charge-offs	(1,351)	(120)	(1,471)	(411)	(2)	(22)	(435)	(168)	(36)	(2,110)
Recoveries	264	52	316	154	1	4	159	5	24	504
Net charge-offs	(1,087)	(68)	(1,155)	(257)	(1)	(18)	(276)	(163)	(12)	(1,606)
Provision for loan and lease losses	1,417	49	1,466	274	3	15	292	75	11	1,844
Allowance build (release) for loan and lease losses	330	(19)	311	17	2	(3)	16	(88)	(1)	238
Other changes[2]	—	13	13	—	(2)	—	(2)	(1)	—	10
Balance as of September 30, 2017	5,155	379	5,534	1,083	59	71	1,213	669	2	7,418
Reserve for unfunded lending commitments:										
Balance as of June 30, 2017	—	—	—	—	—	7	7	132	—	139
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	1	1	(12)	—	(11)
Balance as of September 30, 2017	—	—	—	—	—	8	8	120	—	128
Combined allowance and reserve as of September 30, 2017	$5,155	$ 379	$5,534	$1,083	$59	$ 79	$1,221	$ 789	$ 2	$7,546
	Nine Months Ended September 30, 2017									
	Credit Card			Consumer Banking						
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:										
Balance as of December 31, 2016	$4,229	$ 377	$4,606	$957	$65	$ 80	$1,102	$ 793	$ 2	$6,503
Charge-offs	(4,289)	(355)	(4,644)	(1,119)	(9)	(61)	(1,189)	(334)	(36)	(6,203)
Recoveries	834	128	962	448	4	11	463	12	32	1,469
Net charge-offs	(3,455)	(227)	(3,682)	(671)	(5)	(50)	(726)	(322)	(4)	(4,734)
Provision for loan and lease losses	4,381	199	4,580	797	1	41	839	210	4	5,633
Allowance build (release) for loan and lease losses	926	(28)	898	126	(4)	(9)	113	(112)	—	899
Other changes[2]	—	30	30	—	(2)	—	(2)	(12)	—	16

Balance as of September 30, 2017	5,155	379	5,534	1,083	59	71	1,213	669	2	7,418
Reserve for unfunded lending commitments:										
Balance as of December 31, 2016	—	—	—	—	—	7	7	129	—	136
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	1	1	(9)	—	(8)
Balance as of September 30, 2017	—	—	—	—	—	8	8	120	—	128
Combined allowance and reserve as of September 30, 2017	$5,155	$ 379	$5,534	$1,083	$59	$ 79	$1,221	$ 789	$ 2	$7,546

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	Three Months Ended September 30, 2016									
	Credit Card			Consumer Banking						
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:										
Balance as of June 30, 2016	$3,730	$ 356	$4,086	$833	$58	$ 81	$972	$ 821	$ 2	$5,881
Charge-offs	(1,062)	(109)	(1,171)	(300)	(3)	(20)	(323)	(112)	—	(1,606)
Recoveries	221	44	265	90	2	4	96	4	1	366
Net charge-offs	(841)	(65)	(906)	(210)	(1)	(16)	(227)	(108)	1	(1,240)
Provision (benefit) for loan and lease losses	1,190	82	1,272	239	5	14	258	96	(1)	1,625
Allowance build (release) for loan and lease losses	349	17	366	29	4	(2)	31	(12)	—	385
Other changes[2]	—	(7)	(7)	—	—	—	—	(1)	—	(8)
Balance as of September 30, 2016	4,079	366	4,445	862	62	79	1,003	808	2	6,258
Reserve for unfunded lending commitments:										
Balance as of June 30, 2016	—	—	—	—	—	8	8	161	—	169
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	(2)	(2)	(35)	—	(37)
Balance as of September 30, 2016	—	—	—	—	—	6	6	126	—	132
Combined allowance and reserve as of September 30, 2016	$4,079	$ 366	$4,445	$862	$62	$ 85	$1,009	$ 934	$ 2	$6,390

	Nine Months Ended September 30, 2016									
	Credit Card			Consumer Banking						
(Dollars in millions)	Domestic Card	International Card Businesses	Total Credit Card	Auto	Home Loan	Retail Banking	Total Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:										
Balance as of December 31, 2015	$3,355	$ 299	$3,654	$726	$70	$ 72	$868	$ 604	$ 4	$5,130
Charge-offs	(3,287)	(321)	(3,608)	(796)	(15)	(51)	(862)	(224)	(2)	(4,696)
Recoveries	685	118	803	288	6	12	306	10	4	1,123
Net charge-offs	(2,602)	(203)	(2,805)	(508)	(9)	(39)	(556)	(214)	2	(3,573)
Provision (benefit) for loan and lease losses	3,326	278	3,604	644	1	46	691	452	(4)	4,743
Allowance build (release) for loan and lease losses	724	75	799	136	(8)	7	135	238	(2)	1,170
Other changes[2]	—	(8)	(8)	—	—	—	—	(34)	—	(42)
	4,079	366	4,445	862	62	79	1,003	808	2	6,258

Balance as of September 30, 2016										
Reserve for unfunded lending commitments:										
Balance as of December 31, 2015	—	—	—	—	—	7	7	161	—	168
Provision (benefit) for losses on unfunded lending commitments	—	—	—	—	—	(1)	(1)	(35)	—	(36)
Balance as of September 30, 2016	—	—	—	—	—	6	6	126	—	132
Combined allowance and reserve as of September 30, 2016	$4,079	$ 366	$4,445	$862	$62	$ 85	$ 1,009	$ 934	$ 2	$6,390

(1) Primarily consists of the legacy loan portfolio of our discontinued GreenPoint mortgage operations.
(2) Represents foreign currency translation adjustments and the net impact of loan transfers and sales.

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Table 29 presents the allowance coverage ratios as of September 30, 2017 and December 31, 2016.

Table 29: Allowance Coverage Ratios

	September 30, 2017		December 31, 2016	
Total allowance coverage ratio[1]	2.94	%	2.65	%
Allowance coverage ratios by loan category:[1]				
Credit card (30+ day delinquent loans)	129.34		110.83	
Consumer banking (30+ day delinquent loans)	34.78		32.32	
Commercial banking (nonperforming loans)	84.96		77.58	

(1) Allowance coverage ratio is calculated by dividing the period-end allowance for loan and lease losses by period-end loans held for investment within the specified loan category.

Our allowance for loan and lease losses increased by $915 million to $7.4 billion as of September 30, 2017 from December 31, 2016, and the allowance coverage ratio increased by 29 basis points to 2.94% as of September 30, 2017 from December 31, 2016. The increases were primarily driven by:

- an allowance build in our domestic credit card loan portfolio primarily due to increasing losses from recent vintages and portfolio seasoning, as well as an initial quarterly allowance build related to the loans acquired in the Cabela's acquisition
- an allowance build in our auto loan portfolio due to higher losses associated with growth; and
- an allowance build for estimated hurricane-related losses.

These increases were partially offset by an allowance decrease in our commercial loan portfolio due to charge-offs in our taxi medallion lending portfolio.

LIQUIDITY RISK PROFILE

We have established liquidity practices that are intended to ensure that we have sufficient asset-based liquidity to cover our funding requirements and maintain adequate reserves to withstand the potential impact of deposit attrition or diminished liquidity in the funding markets. We maintain these reserves in the form of readily-marketable or pledgeable assets that can be used as a source of liquidity, if needed.

Table 30 below presents the composition of our liquidity reserves as of September 30, 2017 and December 31, 2016.

Table 30: Liquidity Reserves

(Dollars in millions)	September 30, 2017		December 31, 2016	
Cash and cash equivalents	$ 8,484		$ 9,976	
Investment securities available for sale, at fair value	39,742		40,737	
Investment securities held to maturity, at fair value	29,327		26,196	
Total investment securities portfolio[1][2]	69,069		66,933	
FHLB borrowing capacity secured by loans	22,104		24,078	
Outstanding FHLB advances and letters of credit secured by loans	(13,647	)	(17,646	)
Investment securities encumbered for Public Funds and others	(8,655	)	(9,265	)
Total liquidity reserves	$ 77,355		$ 74,076	

(1) The weighted-average life of our securities was approximately 5.9 years and 6.0 years as of September 30, 2017 and December 31, 2016, respectively.

(2) As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties and to secure trust and public deposits and other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $1.6 billion and $1.9 billion as of September 30, 2017 and December 31, 2016, respectively. We also pledged securities held to maturity with a carrying value of $7.8 billion and $8.1 billion as of September 30, 2017 and December 31, 2016, respectively.

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Our liquidity reserves increased by $3.3 billion to $77.4 billion as of September 30, 2017 from December 31, 2016 primarily due to an increase in our investment securities portfolio. See "MD&A—Risk Management" in our 2016 Form 10-K for additional information on our management of liquidity risk.

We are subject to the Final Liquidity Coverage Ratio Rule ("Final LCR Rule") issued by the Federal Banking Agencies. The Final LCR Rule came into effect in January 2015 and required us to calculate the LCR daily starting July 1, 2016. The minimum LCR standard was phased-in beginning January 1, 2015 and is at 100% as of January 1, 2017. At September 30, 2017, we exceeded the fully phased-in LCR requirement. The calculation and the underlying components are based on our interpretations, expectations and assumptions of relevant regulations, as well as interpretations provided by our regulators, and are subject to change based on changes to future regulations and interpretations. See "Part I—Item 1. Business—Supervision and Regulation" in our 2016 Form 10-K for additional information.

Borrowing Capacity

We filed a shelf registration statement with the SEC on March 31, 2015, which expires in March 2018. Under this shelf registration, we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depositary shares, common stock, purchase contracts, warrants and units. There is no limit under this shelf registration to the amount or number of such securities that we may offer and sell, subject to market conditions. We also filed a new shelf registration statement with the SEC on January 12, 2016, which expires in January 2019 and allows us to periodically offer and sell up to $23 billion of securitized debt obligations from our credit card loan securitization trust.

In addition to our issuance capacity under the shelf registration statements, we also have access to FHLB advances with a maximum borrowing capacity of $22.9 billion, of which $9.3 billion was still available to us to borrow as of September 30, 2017. The ability to draw down funding is based on membership status and the amount is dependent upon the Banks' ability to post collateral. Our FHLB membership is secured by our investment in FHLB stock of $478 million and $760 million as of September 30, 2017 and December 31, 2016, respectively, which was determined in part based on our outstanding advances. We also have access to the Federal Reserve Discount Window through which we had a borrowing capacity of $8.1 billion as of September 30, 2017.

Funding

The Company's primary source of funding comes from deposits, which provide a stable and relatively low cost of funds. In addition to deposits, the Company raises funding through the issuance of senior and subordinated notes, FHLB advances secured by certain portions of our loan and securities portfolios, the issuance of securitized debt obligations, the issuance of brokered deposits, federal funds purchased and other borrowings. A key objective in our use of these markets is to maintain access to a diversified mix of wholesale funding sources.

Deposits

Table 31 provides the composition of deposits as of September 30, 2017 and December 31, 2016, as well as a comparison of average balances, interest expense and average deposit interest rates for the three and nine months ended September 30, 2017 and 2016.

Table 31: Deposits Composition and Average Deposits Interest Rates

(Dollars in millions)	September 30, 2017	December 31, 2016
Non-interest-bearing deposits	$ 26,106	$ 25,502
Interest-bearing checking accounts(1)	43,652	45,820
Saving deposits(2)	142,427	145,142
Time deposits less than $100,000	22,712	16,949
Total core deposits	234,897	233,413
Time deposits of $100,000 or more	3,863	2,875
Foreign deposits	302	480
Total deposits	$ 239,062	$ 236,768

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(Dollars in millions)	Three Months Ended September 30, 2017 Average Balance	Interest Expense	Average Deposits Interest Rate		2016 Average Balance	Interest Expense	Average Deposits Interest Rate	
Interest-bearing checking accounts[1]	$44,055	$ 57	0.52	%	$44,619	$ 54	0.48	%
Saving deposits[2]	143,023	247	0.69		137,365	207	0.60	
Time deposits less than $100,000	21,769	91	1.66		11,658	35	1.21	
Total interest-bearing core deposits	208,847	395	0.75		193,642	296	0.61	
Time deposits of $100,000 or more	3,836	15	1.52		2,644	9	1.38	
Foreign deposits	454	—	0.38		627	1	0.36	
Total interest-bearing deposits	$213,137	$ 410	0.77		$196,913	$ 306	0.62	

(Dollars in millions)	Nine Months Ended September 30, 2017 Average Balance	Interest Expense	Average Deposits Interest Rate		2016 Average Balance	Interest Expense	Average Deposits Interest Rate	
Interest-bearing checking accounts[1]	$45,041	$ 168	0.50	%	$45,458	$ 164	0.48	%
Saving deposits[2]	144,458	706	0.65		136,042	596	0.58	
Time deposits less than $100,000	20,000	230	1.54		10,953	94	1.15	
Total interest-bearing core deposits	209,499	1,104	0.70		192,453	854	0.59	
Time deposits of $100,000 or more	3,531	40	1.49		2,441	25	1.39	
Foreign deposits	478	1	0.39		671	2	0.35	
Total interest-bearing deposits	$213,508	$ 1,145	0.72		$195,565	$ 881	0.60	

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(1) Includes Negotiable Order of Withdrawal (“NOW”) accounts.

(2) Includes Money Market Deposit Accounts (“MMDA”).

Our deposits include brokered deposits, which we obtained through third-party intermediaries. Those brokered deposits are reported as interest-bearing checking, saving deposits and time deposits in the above table and totaled $22.8 billion and $22.5 billion as of September 30, 2017 and December 31, 2016, respectively.

The FDIC limits the acceptance of brokered deposits by well-capitalized insured depository institutions and, with a waiver from the FDIC, by adequately-capitalized institutions. COBNA and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of September 30, 2017 and December 31, 2016, respectively. See “Part I—Item 1. Business—Supervision and Regulation” for additional information.

Short-Term Borrowings and Long-Term Debt

We access the capital markets to meet our funding needs through the issuance of senior and subordinated notes, securitized debt obligations, and federal funds purchased and securities loaned or sold under agreements to repurchase. In addition, we may utilize short-term and long-term FHLB advances secured by our investment securities, residential home loans, multifamily real estate loans, commercial real estate loans and home equity lines of credit. Substantially all of our long-term FHLB advances are structured with either a monthly or a quarterly call option at our discretion.

Our short-term borrowings include those borrowings with an original contractual maturity of one year or less and do not include the current portion of long-term debt. The short-term borrowings, which consist of federal funds purchased and securities loaned or sold under agreements to repurchase, decreased by $225 million to $767 million as of September 30, 2017 from December 31, 2016.

Our long-term debt, which primarily consists of securitized debt obligations, senior and subordinated notes, and long-term FHLB advances, decreased by $777 million to $58.7 billion as of September 30, 2017 from December 31, 2016, primarily attributable to decreases in our FHLB advances outstanding and securitized debt obligations, partially offset by an increase in our senior and subordinated notes.

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Credit Ratings

Our credit ratings impact our ability to access capital markets and our borrowing costs. Rating agencies base their ratings on numerous factors, including liquidity, capital adequacy, asset quality, quality of earnings and the probability of systemic support. Significant changes in these factors could result in different ratings. Such ratings help to support our cost effective unsecured funding as part of our overall financing programs.

Table 32 provides a summary of the credit ratings for the senior unsecured long-term debt of Capital One Financial Corporation, COBNA and CONA as of September 30, 2017 and December 31, 2016.

Table 32: Senior Unsecured Long-Term Debt Credit Ratings

	September 30, 2017			December 31, 2016		
	Capital One Financial Corporation	COBNA	CONA	Capital One Financial Corporation	COBNA	CONA
Moody’s	Baa1	Baa1	Baa1	Baa1	Baa1	Baa1
S&P	BBB	BBB+	BBB+	BBB	BBB+	BBB+
Fitch	A-	A-	A-	A-	A-	A-

As of October 31, 2017, Moody’s, S&P and Fitch Ratings (“Fitch”) have us on a stable outlook.

MARKET RISK PROFILE

Market risk is inherent in the financial instruments associated with our operations and activities, including loans, deposits, securities, short-term borrowings, long-term debt and derivatives. Below we provide additional information about our primary sources of market risk, our market risk management strategies and the measures we use to evaluate our market risk exposure.

Primary Market Risk Exposures

Our primary source of market risk is interest rate risk. We also have exposure to foreign exchange risk and customer-related trading risk, both of which we believe are minimal after considering the impact of our associated risk management activities discussed below.

Interest Rate Risk

Interest rate risk, which represents exposure to instruments whose yield or price varies with the volatility of interest rates, is our most significant source of market risk exposure. Banks are inevitably exposed to interest rate risk due to differences in the timing between the maturities or re-pricing of assets and liabilities.

Foreign Exchange Risk

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. Our primary exposure to foreign exchange risk is related to the operations of our international businesses in the U.K. and Canada. The largest foreign exchange exposure arising from these operations is the funding they are provided in the Great British pound (“GBP”) and the Canadian dollar (“CAD”), respectively. We also have foreign exchange exposure through our net equity investments in these operations and through the dollar-denominated value of future earnings and cash flows they generate.

Our intercompany funding exposes our consolidated statements of income to foreign exchange transaction risk, while our equity investments in our foreign operations result in translation risk in AOCI and our capital ratios. We manage our transaction risk by entering into forward foreign currency derivative contracts to hedge our exposure to variability in cash flows related to foreign currency-denominated intercompany borrowings. We use foreign currency derivative contracts as net investment hedges to manage our AOCI exposure. We apply hedge accounting to both our intercompany funding hedges and our net investment hedges, with the primary net investments subject to hedging those denominated in GBP.

We measure our total exposure from non-dollar-denominated intercompany borrowings to our international businesses by regularly tracking the value of the loans made to our foreign operations and the associated forward foreign currency derivative contracts we use to hedge them. We apply a 1% U.S. dollar appreciation shock against these exposures to measure the impact to our consolidated

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statements of income from foreign exchange transaction risk. The intercompany borrowings to our international businesses were 696 million GBP and 786 million GBP as of September 30, 2017 and December 31, 2016, respectively, and 6.1 billion CAD and 6.2 billion CAD as of September 30, 2017 and December 31, 2016, respectively.

We measure our total exposure in non-dollar-denominated equity by regularly tracking the value of net equity invested in our foreign operations, the largest of which is in our U.K. and Canadian operations. Our measurement of net equity includes the impact of net investment hedges where applicable. We apply a 30% U.S. dollar appreciation shock against these net investment exposures, which we believe approximates a significant adverse foreign exchange movement over a one-year time horizon. Our gross equity exposures in our U.K. and Canadian operations were 1.5 billion GBP as of both September 30, 2017 and December 31, 2016, and 1.0 billion CAD and 863 million CAD as of September 30, 2017 and December 31, 2016, respectively.

As a result of our derivative management activities, we believe our net exposure to foreign exchange risk is minimal.

Customer-Related Trading Risk

We offer various interest rate, foreign exchange rate and commodity derivatives as an accommodation to our customers within our Commercial Banking business and offset the majority of these exposures through derivative transactions with other counterparties. These exposures are measured and monitored on a daily basis. As a result of offsetting our customer exposures with other counterparties, we believe our net exposure to customer-related trading risk is minimal.

We employ value-at-risk (“VaR”) as the primary method to both measure and monitor the market risk in our customer-related trading activities. VaR is a statistical-based risk measure used to estimate the potential loss from adverse market movements in a normal market environment. We employ a historical simulation approach using the most recent 500 business days and use a 99 percent confidence level and a holding period of 1 business day. We use internal models to produce a daily VaR measure of the market risk of all customer-related trading exposures.

For further information on our customer-related trading exposures, see “Note 9—Derivative Instruments and Hedging Activities.”

Market Risk Management

We employ several techniques to manage our interest rate and foreign exchange risk, which include, but are not limited to, altering the duration and re-pricing characteristics of our various assets and liabilities through interest rate derivatives and mitigating the foreign exchange exposure of certain non-dollar-denominated equity or transactions through derivatives. Our current market risk management policies include the use of derivatives, which are one of the primary tools we use in managing interest rate and foreign exchange risk. We execute our derivative contracts in both over-the-counter (“OTC”) and exchange-traded derivative markets and have exposure to both bilateral and clearinghouse counterparties. Although the majority of our derivatives are interest rate swaps, we also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage both our interest rate and foreign currency risk. The outstanding notional amount of our derivative contracts increased to $179.5 billion as of September 30, 2017 from $142.9 billion as of December 31, 2016 primarily driven by an increase in our hedging activities.

Market Risk Measurement

We have risk management policies and limits established by our market risk management policies and approved by the Board of Directors. Our objective is to manage our asset and liability risk position and exposure to market risk in accordance with these policies and prescribed limits based on prevailing market conditions and long-term expectations. Because no single measure can reflect all aspects of market risk, we use various industry standard market risk measurement techniques and analysis to measure, assess and manage the impact of changes in interest rates on our net interest income and our economic value of equity and the impact of changes in foreign exchange rates on our non-dollar-denominated earnings and non-dollar equity investments in foreign operations. We provide additional information below in “Economic Value of Equity.”

We consider the impact on both net interest income and economic value of equity in measuring and managing our interest rate risk. Due to the increase in interest rates since December 31, 2016, we have incorporated a 100-basis points decline scenario into our interest rate sensitivity analysis. We use this 100-basis points decrease as our largest magnitude declining interest rate scenario, since a scenario where interest rates would decline by 200 basis points is unlikely. In scenarios where a 100-basis points decline would result in a rate less than 0%, we assume a rate of 0%. Below we discuss the assumptions used in calculating each of these measures.

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Net Interest Income Sensitivity

This sensitivity measure estimates the impact on our projected 12-month baseline interest rate-sensitive revenue resulting from movements in interest rates. Interest rate-sensitive revenue consists of net interest income and certain components of other non-interest income significantly impacted by movements in interest rates, including changes in the fair value of mortgage servicing rights and free-standing interest rate swaps. Adjusted net interest income consists of net interest income and changes in the fair value of mortgage servicing rights, including related derivative hedging activity, and changes in the fair value of free-standing interest rate swaps. In addition to our existing assets and liabilities, we incorporate expected future business growth assumptions, such as loan and deposit growth and pricing, and plans for projected changes in our funding mix in our baseline forecast. In measuring the sensitivity of interest rate movements on our projected interest rate-sensitive revenue, we assume a hypothetical instantaneous parallel shift in the level of interest rates of +200 basis points, +100 basis points, +50 basis points, -50 basis points and -100 basis points to spot rates, with the lower rate scenario limited to zero as described above. At the current level of interest rates, our net interest income increases in the +50 and +100 basis points scenarios and declines in the +200 basis points scenario. The net interest income decline in the +200 basis points scenario compared with the +100 basis points scenario is mainly due to our assumption that deposit repricing increases more quickly with higher interest rates.

Economic Value of Equity

Our economic value of equity sensitivity measure estimates the impact on the net present value of our assets and liabilities, including derivative hedging activity, resulting from movements in interest rates. Our economic value of equity sensitivity measures are calculated based on our existing assets and liabilities, including derivatives, and do not incorporate business growth assumptions or projected plans for funding mix changes. In measuring the sensitivity of interest rate movements on our economic value of equity, we assume a hypothetical instantaneous parallel shift in the level of interest rates of +200 basis points, +100 basis points, +50 basis points, -50 basis points and -100 basis points to spot rates, with the lower rate scenario limited to zero as described above.

Calculating our economic value of equity and its sensitivity to interest rates requires projecting cash flows for assets, liabilities and derivative instruments and discounting those cash flows at the appropriate discount rates. Key assumptions in our economic value of equity calculation include projecting rate sensitive prepayments for mortgage securities, loans and other assets, term structure modeling of interest rates, discount spreads, and deposit volume and pricing assumptions.

Our current economic value of equity sensitivity profile demonstrates that our economic value of equity generally decreases as interest rates increase indicating that the economic value of our assets and derivative positions is more sensitive to interest rate changes than our liabilities.

Table 33 shows the estimated percentage impact on our projected baseline net interest income and economic value of equity calculated under the methodology described above as of September 30, 2017 and December 31, 2016. During the second quarter of 2017, we updated our projected commercial deposit attrition assumptions that resulted in longer life of these deposit balances and accounts for most of the decrease in economic value of equity sensitivity from December 31, 2016. Our net interest income sensitivity measures were largely unchanged from this assumption update.

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Table 33: Interest Rate Sensitivity Analysis

	September 30, 2017	December 31, 2016
Estimated impact on projected baseline net interest income:		
+200 basis points	(0.6)%	(0.1)%
+100 basis points	0.1	0.5
+50 basis points	0.2	0.4
–50 basis points	(0.5)	(1.0)
–100 basis points	(2.2)	N/A
Estimated impact on economic value of equity:		
+200 basis points	(6.9)	(9.6)
+100 basis points	(2.6)	(3.8)
+50 basis points	(1.0)	(1.5)
–50 basis points	(0.4)	0.5
–100 basis points	(2.4)	N/A

In addition to these industry standard measures, we will continue to factor into our internal interest rate risk management decisions the potential impact of alternative interest rate scenarios, such as stressed rate shocks as well as steepening and flattening yield curve scenarios.

Limitations of Market Risk Measures

The interest rate risk models that we use in deriving these measures incorporate contractual information, internally-developed assumptions and proprietary modeling methodologies, which project borrower and depositor behavior patterns in certain interest rate environments. Other market inputs, such as interest rates, market prices and interest rate volatility, are also critical components of our interest rate risk measures. We regularly evaluate, update and enhance these assumptions, models and analytical tools as we believe appropriate to reflect our best assessment of the market environment and the expected behavior patterns of our existing assets and liabilities.

There are inherent limitations in any methodology used to estimate the exposure to changes in market interest rates. The sensitivity analysis described above contemplates only certain movements in interest rates and is performed at a particular point in time based on the existing balance sheet and, in some cases, expected future business growth and funding mix assumptions. The strategic actions that management may take to manage our balance sheet may differ significantly from our projections, which could cause our actual earnings and economic value of equity sensitivities to differ substantially from the above sensitivity analysis.

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SUPERVISION AND REGULATION

We provide information on our Supervision and Regulation in our 2016 Form 10-K under "Part I—Item 1. Business—Supervision and Regulation."

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, and the impact of inaccurate estimates or inadequate reserves;
- 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 in the technology platforms on which we rely, including security failures or breaches of our systems or those of our customers, partners, service providers or other third parties;

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- 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;
- the effectiveness of our risk management strategies;
- our ability to control costs, including 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;
- the extensive use of models in our business, including those to aggregate and assess various risk exposures and estimate certain financial values;
- 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;
- the impact from natural disasters and other catastrophic events, including hurricanes Harvey and Irma;
- changes in the labor and employment markets;
- fraud or misconduct by our customers, employees, business partners or third parties;
- competition from providers of products and services that compete with our businesses;
- increased competition for rewards customers resulting in higher rewards expense, or impairing our ability to attract and retain credit card customers;
- merchants' increasing focus on the fees charged by credit card networks; and
- 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 our 2016 Form 10-K.

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SUPPLEMENTAL TABLE

We report certain non-GAAP measures that management uses in assessing its capital adequacy and the level of return generated. These non-GAAP measures are individually identified and calculations are explained in footnotes below the table. These metrics are considered key financial performance measures for the Company. We believe they provide useful insight to investors and users of our financial information in assessing the results of the Company.

The table below provides the details of the calculation of our non-GAAP and regulatory capital measures. While some of our non-GAAP measures are widely used by investors, analysts and bank regulatory agencies to assess the capital position of financial services companies, they may not be comparable to similarly-titled measures reported by other companies.

Table A—Reconciliation of Non-GAAP Measures and Calculation of Regulatory Capital Measures

(Dollars in millions, except as noted)	September 30, 2017	December 31, 2016
Tangible Common Equity (Period-End)		
Stockholders' equity	$ 50,154	$ 47,514
Goodwill and intangible assets[1]	(15,249)	(15,420)
Noncumulative perpetual preferred stock	(4,360)	(4,360)
Tangible common equity	$ 30,545	$ 27,734
Tangible Common Equity (Quarterly Average)		
Stockholders' equity	$ 50,176	$ 47,972
Goodwill and intangible assets[1]	(15,277)	(15,455)
Noncumulative perpetual preferred stock	(4,360)	(4,051)
Tangible common equity	$ 30,539	$ 28,466
Tangible Assets (Period-End)		
Total assets	$ 361,402	$ 357,033
Goodwill and intangible assets[1]	(15,249)	(15,420)
Tangible assets	$ 346,153	$ 341,613
Tangible Assets (Quarterly Average)		
Total assets	$ 355,191	$ 350,225
Goodwill and intangible assets[1]	(15,277)	(15,455)
Tangible assets	$ 339,914	$ 334,770
Non-GAAP Ratio		
TCE[2]	8.8 %	8.1 %
Capital Ratios[3]		
Common equity Tier 1 capital[4]	10.7 %	10.1 %
Tier 1 capital[5]	12.2	11.6
Total capital[6]	14.8	14.3
Tier 1 leverage[7]	10.5	9.9
Supplementary leverage[8]	9.0	8.6
Regulatory Capital Metrics		
Risk-weighted assets[9]	$ 292,041	$ 285,756
Adjusted average assets[7]	340,579	335,835
Total leverage exposure for supplementary leverage ratio	397,248	387,921

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(Dollars in millions)	September 30, 2017	December 31, 2016
Regulatory Capital Under Basel III Standardized Approach		
Common equity excluding AOCI	$ 46,415	$ 44,103
Adjustments:		
AOCI[(10)(11)]	(538)	(674)
Goodwill, net of related deferred tax liabilities	(14,300)	(14,307)
Intangible assets, net of related deferred tax liabilities[(11)]	(372)	(384)
Other	93	65
Common equity Tier 1 capital	31,298	28,803
Tier 1 capital instruments	4,360	4,359
Additional Tier 1 capital adjustments	(1)	—
Tier 1 capital	35,657	33,162
Tier 2 capital instruments	3,917	4,047
Qualifying allowance for loan and lease losses	3,698	3,608
Tier 2 capital	7,615	7,655
Total capital[(12)]	$ 43,272	$ 40,817

(1) Includes impact of related deferred taxes.

(2) TCE ratio is a non-GAAP measure calculated by dividing the period-end TCE by period-end tangible assets.

(3) Ratios as of September 30, 2017 are preliminary. As we continue to validate our data, the calculations are subject to change until we file our September 30, 2017 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

(4) Common equity Tier 1 capital ratio is a regulatory capital measure calculated based on common equity Tier 1 capital divided by risk-weighted assets.

(5) Tier 1 capital ratio is a regulatory capital measure calculated based on Tier 1 capital divided by risk-weighted assets.

(6) Total capital ratio is a regulatory capital measure calculated based on total capital divided by risk-weighted assets.

(7) Adjusted average assets, for the purpose of calculating our Tier 1 leverage ratio, represent total average assets adjusted for amounts that deducted from Tier 1 capital, predominately goodwill and intangible assets. Tier 1 leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by adjusted average assets.

(8) Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure. See "MD&A—Capital Management" for additional information.

(9) Includes credit and market risk weighted assets.

(10) Amounts presented are net of tax.

(11) Amounts based on transition provisions for regulatory capital deductions and adjustments of 60% for 2016 and 80% for 2017.

(12) Total capital equals the sum of Tier 1 capital and Tier 2 capital.

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Glossary and Acronyms

2017 Stock Repurchase Program: On June 28, 2017, we announced that our Board of Directors had authorized the repurchase of up to $1.85 billion of shares of our common stock from the third quarter of 2017 through the end of the second quarter of 2018.

Annual Report: References to our “2016 Form 10-K” or “2016 Annual Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2016.

Banks: Refers to COBNA and CONA.

Basel Committee: The Basel Committee on Banking Supervision.

Basel III Advanced Approaches: The Basel III Advanced Approaches is mandatory for those institutions with consolidated total assets of $250 billion or more or consolidated total on-balance sheet foreign exposure of $10 billion or more. The Basel III Capital Rule modified the Advanced Approaches version of Basel II to create the Basel III Advanced Approaches.

Basel III Capital Rule: The Federal Baking Agencies issued a rule in July 2013 implementing the Basel III capital framework developed by the Basel Committee as well as certain Dodd-Frank Act and other capital provisions.

Basel III Standardized Approach: The Basel III Capital Rule modified Basel I to create the Basel III Standardized Approach, which requires for Basel III Advanced Approaches banking organizations that have yet to exit parallel run to use the Basel III Standardized Approach to calculate regulatory capital, including capital ratios, subject to transition provisions.

Cabela’s acquisition: On September 25, 2017, we completed the acquisition from Synovus Bank of credit card assets and related liabilities of World’s Foremost Bank, a wholly-owned subsidiary of Cabela’s Incorporated.

Capital One: Capital One Financial Corporation and its subsidiaries.

Carrying value (with respect to loans): The amount at which a loan is recorded on the consolidated balance sheets. For loans recorded at amortized cost, carrying value is the unpaid principal balance net of unamortized deferred loan origination fees and costs, and unamortized purchase premium or discount. For loans that are or have been on nonaccrual status, the carrying value is also reduced by any net charge-offs that have been recorded and the amount of interest payments applied as a reduction of principal under the cost recovery method. For credit card loans, the carrying value also includes interest that has been billed to the customer. For loans classified as held for sale, carrying value is the lower of carrying value as described in the sentences above, or fair value. For PCI loans, carrying value represents the present value of all expected cash flows including interest that has not yet been accrued, discounted at the effective interest rate, including any valuation allowance for impaired loans.

CCB: Chevy Chase Bank, F.S.B., which was acquired by the Company in 2009.

CECL: In June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance, which becomes effective on January 1, 2020 with early adoption permitted no earlier than January 1, 2019, requires use of a current expected credit loss (“CECL”) model that is based on expected rather than incurred losses, with an anticipated result of more timely loss recognition.

COBNA: Capital One Bank (USA), National Association, one of our fully owned subsidiaries, which offers credit and debit card products, other lending products and deposit products.

Common equity Tier 1 capital: Calculated as the sum of common equity, related surplus and retained earnings, and accumulated other comprehensive income net of applicable phase-ins, less goodwill and intangibles net of associated deferred tax liabilities and applicable phase-ins, less other deductions, as defined by regulators.

Company: Capital One Financial Corporation and its subsidiaries.

CONA: Capital One, National Association, one of our fully owned subsidiaries, which offers a broad spectrum of banking products and financial services to consumers, small businesses and commercial clients.

Credit risk: The risk of loss from an obligor’s failure to meet the terms of any contract or otherwise fail to perform as agreed.

Derivative: A contract or agreement whose value is derived from changes in interest rates, foreign exchange rates, prices of securities or commodities, credit worthiness for credit default swaps or financial or commodity indices.

Discontinued operations: The operating results of a component of an entity, as defined by Accounting Standards Codification (“ASC”) 205, that are removed from continuing operations when that component has been disposed of or it is management’s intention to sell the component.

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Dodd-Frank Wall Street Reform and Consumer Protection Act (“Dodd-Frank Act”): Regulatory reform legislation signed into law on July 21, 2010. This law broadly affects the financial services industry and contains numerous provisions aimed at strengthening the sound operation of the financial services sector.
Exchange Act: The Securities Exchange Act of 1934.
eXtensible Business Reporting Language (“XBRL”): A language for the electronic communication of business and financial data.
Federal Banking Agencies: The Federal Reserve, Office of the Comptroller of the Currency and Federal Deposit Insurance Corporation.
Federal Reserve: The Board of Governors of the Federal Reserve System.
FICO score: A measure of consumer credit risk provided by credit bureaus, typically produced from statistical modeling software created by FICO (formerly known as “Fair Isaac Corporation”) utilizing data collected by the credit bureaus.
Final LCR Rule: In September 2014, the Federal Banking Agencies issued final rules implementing the Basel III Liquidity Coverage Ratio in the United States. The Final LCR Rule applies to institutions with $250 billion or more in total consolidated assets or $10 billion or more in total consolidated on-balance sheet foreign exposure, and their respective consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets. The LCR is calculated by dividing the amount of an institution’s high quality, unencumbered liquid assets by its estimated net cash outflow, as defined and calculated in accordance with Final LCR Rule.
Foreign currency derivative contracts: An agreement to exchange contractual amounts of one currency for another currency at one or more future dates.
Foreign exchange contracts: Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.
GreenPoint: Refers to our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc., which was closed in 2007.
GSE or Agency: A government-sponsored enterprise or agency is a financial services corporation created by the United States Congress. Examples of U.S. government agencies include Federal National Mortgage Association (“Fannie Mae”), Federal Home Loan Mortgage Corporation (“Freddie Mac”), Government National Mortgage Association (“Ginnie Mae”) and the Federal Home Loan Banks (“FHLB”).
HFS acquisition: On December 1, 2015, we acquired the Healthcare Financial Services business of General Electric Capital Corporation, which provides financing to companies in various healthcare sectors, including hospitals, senior housing, medical offices, pharmaceuticals, medical devices and healthcare technology.
Impaired loans: A loan is considered impaired when, based on current information and events, it is probable that we will not be able to collect all amounts due from the borrower in accordance with the original contractual terms of the loan.
Inactive Insured Securitizations: Securitizations as to which the monoline bond insurers have not made repurchase-related requests or loan file requests to one of our subsidiaries.
ING Direct acquisition: On February 17, 2012, we completed the acquisition of substantially all of the ING Direct business in the United States (“ING Direct”) from ING Groep N.V., ING Bank N.V., ING Direct N.V. and ING Direct Bancorp.
Insured securitizations: Securitizations supported by bond insurance.
Interest rate sensitivity: The exposure to interest rate movements.
Interest rate swaps: Contracts in which a series of interest rate flows in a single currency are exchanged over a prescribed period. Interest rate swaps are the most common type of derivative contract that we use in our asset/liability management activities.
Investment grade: Represents Moody’s long-term rating of Baa3 or better; and/or a Standard & Poor’s or DBRS long-term rating of BBB- or better; or if unrated, an equivalent rating using our internal risk ratings. Instruments that fall below these levels are considered to be non-investment grade.

Investments in qualified affordable housing projects: Capital One invests in private investment funds that make equity investments in multifamily affordable housing properties that provide affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt.

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Investor entities: Entities that invest in community development entities ("CDE") that provide debt financing to businesses and non-profit entities in low-income and rural communities.
Leverage ratio: Tier 1 capital divided by average assets after certain adjustments, as defined by the regulators.
Liquidity risk: The risk that the Company will not be able to meet its future financial obligations as they come due, or invest in future asset growth because of an inability to obtain funds at a reasonable price within a reasonable time period.
Loan-to-value ("LTV") ratio: The relationship expressed as a percentage, between the principal amount of a loan and the appraised value of the collateral (i.e., residential real estate, autos, etc.) securing the loan.
Managed presentation: A non-GAAP presentation of financial results that includes reclassifications to present revenue on a fully taxable-equivalent basis. Management uses this non-GAAP financial measure at the segment level, because it believes this provides information to enable investors to understand the underlying operational performance and trends of the particular business segment and facilitates a comparison of the business segment with the performance of competitors.
Market risk: The risk that an institution's earnings or the economic value of equity could be adversely impacted by changes in interest rates, foreign exchange rates or other market factors.
Master netting agreement: An agreement between two counterparties that have multiple contracts with each other that provides for the net settlement of all contracts through a single payment in the event of default or termination of any one contract.
Mortgage-backed security ("MBS"): An asset-backed security whose cash flows are backed by the principal and interest payments of a set of mortgage loans.
Mortgage servicing rights ("MSR"): The right to service a mortgage loan when the underlying loan is sold or securitized. Servicing includes collections for principal, interest and escrow payments from borrowers and accounting for and remitting principal and interest payments to investors.
Net interest margin: The result of dividing net interest income by average interest-earning assets.
Nonperforming loans: Loans that have been placed on non-accrual status.
North Fork: North Fork Bancorporation, Inc., which was acquired by the Company in 2006.
Option-ARM loans: The option-ARM real estate loan product is an adjustable-rate mortgage loan that initially provides the borrower with the monthly option to make a fully-amortizing, interest-only or minimum fixed payment. After the initial payment option period, usually five years, the recalculated minimum payment represents a fully-amortizing principal and interest payment that would effectively repay the loan by the end of its contractual term.
Other-than-temporary impairment ("OTTI"): An impairment charge taken on a security whose fair value has fallen below the carrying value on the balance sheet and whose value is not expected to recover through the holding period of the security.
Purchased credit-impaired ("PCI") loans: Refers to the loans acquired in a business combination that were recorded at fair value at acquisition and subsequently accounted for based on cash flows expected to be collected in accordance with ASC 310-30, Loans and Debt Securities Acquired with Deteriorated Credit Quality (formerly known as "Statement of Position 03-3, Accounting for Certain Loans or Debt Securities Acquired in a Transfer," commonly referred to as "SOP 03-3"). Acquired loans are considered PCI loans if they have a discount attributable, at least in part, to credit deterioration and they are not specifically scoped out of this guidance. Our PCI loans primarily include a limited portion of commercial loans acquired in the HFS acquisition and the substantial majority of consumer and commercial loans acquired in the ING Direct and Chevy Chase acquisitions.
The excess of cash flows expected to be collected over the estimated fair value of purchased loans represents the accretable yield, which is recognized into interest income over the life of the loans. The difference between total contractual payments on the loans and all expected cash flows represents the nonaccretable difference or the amount of principal and interest not considered collectible, which incorporates future expected credit losses over the life of the loans. Decreases in expected cash flows from credit deterioration subsequent to acquisition will generally result in an

impairment charge recognized in our provision for credit losses and an increase in the allowance for loan and lease losses. Charge-offs are not recorded until the expected credit losses within the nonaccretable difference are depleted. PCI loans are not classified as delinquent or nonperforming as we expect to collect our net investment in these loans and the nonaccretable difference will absorb the majority of the losses associated with these loans. In addition, PCI loans are excluded from impaired loans because the applicable accounting methodology takes into consideration expected future credit losses.

Public Fund deposits: Deposits that are derived from a variety of political subdivisions such as school districts and municipalities.

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Purchase volume: Includes purchase transactions, net of returns, for the period for loans both classified as held for investment and held for sale. Excludes cash advance and balance transfer transactions.
Rating agency: An independent agency that assesses the credit quality and likelihood of default of an issue or issuer and assigns a rating to that issue or issuer.
Recorded investment: The amount of the investment in a loan which includes any direct write-down of the investment.
Repurchase agreement: An instrument used to raise short-term funds whereby securities are sold with an agreement for the seller to buy back the securities at a later date.
Restructuring charges: Charges typically from the consolidation or relocation of operations, and reductions in work force.
Return on average assets: Calculated based on income from continuing operations, net of tax, for the period divided by average total assets for the period.
Return on average common equity: 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.
Return on average tangible common equity: A non-GAAP financial measure calculated based on the sum of (i) income from continuing operations, net of tax; (ii) less dividends and undistributed earnings allocated to participating securities; and (iii) less preferred stock dividends, for the period, divided by average tangible common equity. Our calculation of return on average tangible common equity may not be comparable to similarly-titled measures reported by other companies.
Risk-weighted assets: Consist of on- and off-balance sheet assets that are assigned to one of several broad risk categories and weighted by factors representing their risk and potential for default.
Securitized debt obligations: A type of asset-backed security and structured credit product constructed from a portfolio of fixed-income assets.
Small-ticket commercial real estate: Our small-ticket commercial real estate portfolio is predominantly low- or no-documentation loans with balances generally less than $2 million. This portfolio was originated on a national basis through a broker network and is in a run-off mode.
Subprime: For purposes of lending in our Credit Card business we generally consider FICO scores of 660 or below, or other equivalent risk scores, to be subprime. For purposes of auto lending in our Consumer Banking business we generally consider FICO scores of 620 or below to be subprime.
Tangible common equity ("TCE"): A non-GAAP financial measure. Common equity less goodwill and intangible assets adjusted for deferred tax liabilities associated with non-tax deductible intangible assets and tax deductible goodwill.
Troubled debt restructuring ("TDR"): A TDR is deemed to occur when the Company modifies the contractual terms of a loan agreement by granting a concession to a borrower that is experiencing financial difficulty.
U.K. PPI Reserve: U.K. payment protection insurance customer refund reserve.
U.S. GAAP: Accounting principles generally accepted in the United States of America. Accounting rules and conventions defining acceptable practices in preparing financial statements in the U.S.
Unfunded commitments: Legally binding agreements to provide a defined level of financing until a specified future date.
Variable interest entity ("VIE"): An entity that (i) lacks enough equity investment at risk to permit the entity to finance its activities without additional financial support from other parties; (ii) has equity owners that lack the right to make significant decisions affecting the entity's operations; and/or (iii) has equity owners that do not have an obligation to absorb or the right to receive the entity's losses or return.

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Acronyms
ABS: Asset-backed security
AFS: Available for sale
AML: Anti-money laundering
AOCI: Accumulated other comprehensive income
ARM: Adjustable rate mortgage
ASC: Accounting Standards Codification
BHC: Bank holding company
BMA: Bank Merger Act
bps: Basis points
CAD: Canadian dollar
CCAR: Comprehensive Capital Analysis and Review
CCP: Central Counterparty Clearinghouse, or Central Clearinghouse
CDE: Community development entities
CECL: Current expected credit loss
CEO: Chief Executive Officer
CIFG: CIFG Assurance North America, Inc. ("U.S. Bank Litigation")
CMBS: Commercial mortgage-backed securities
CME: Chicago Mercantile Exchange
COEP: Capital One (Europe) plc
COF: Capital One Financial Corporation
CVA: Credit valuation adjustment
DVA: Debit valuation adjustment
Fannie Mae: Federal National Mortgage Association
FASB: Financial Accounting Standards Board
FCA: Financial Conduct Authority
FCM: Futures commission merchant
FDIC: Federal Deposit Insurance Corporation
FFIEC: Federal Financial Institutions Examination Council
FHFA: Federal Housing Finance Agency
FHLB: Federal Home Loan Banks
FIRREA: Financial Institutions Reform, Recovery and Enforcement Act
Fitch: Fitch Ratings
FOS: Financial Ombudsman Service
Freddie Mac: Federal Home Loan Mortgage Corporation
FVC: Fair Value Committee
GBP: Great British pound
GDP: Gross domestic product
Ginnie Mae: Government National Mortgage Association
GSE or Agency: Government-sponsored enterprise
HELOCs: Home equity lines of credit
HFI: Held for investment
HFS: Healthcare Financial Services

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LCH: London Clearing House, or Clearnet
LCR: Liquidity coverage ratio
LIBOR: London Interbank Offered Rate
MMDA: Money market deposit accounts
Moody’s: Moody’s Investors Service
MSR: Mortgage servicing rights
NOW: Negotiable order of withdrawal
OCC: Office of the Comptroller of the Currency
OCI: Other comprehensive income
OTC: Over-the-counter
PCA: Prompt corrective action
PCI: Purchased credit-impaired
PCCR: Purchased credit card relationship
PPI: Payment protection insurance
REO: Real estate owned
RMBS: Residential mortgage-backed securities
S&P: Standard & Poor’s
SEC: U.S. Securities and Exchange Commission
SLR: Supplementary leverage ratio
TARP: Troubled Asset Relief Program
TCE: Tangible common equity
TDR: Troubled debt restructuring
U.K.: United Kingdom
U.S.: United States of America
VAC: Valuations Advisory Committee

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Item 1. Financial Statements and Notes

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF INCOME (UNAUDITED)

(Dollars in millions, except per share-related data)	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Interest income:				
Loans, including loans held for sale	$5,960	$5,383	$17,255	$15,616
Investment securities	431	386	1,280	1,206
Other	29	25	83	60
Total interest income	6,420	5,794	18,618	16,882
Interest expense:				
Deposits	410	306	1,145	881
Securitized debt obligations	85	56	236	151
Senior and subordinated notes	194	121	522	338
Other borrowings	31	34	68	86
Total interest expense	720	517	1,971	1,456
Net interest income	5,700	5,277	16,647	15,426
Provision for credit losses	1,833	1,588	5,625	4,707
Net interest income after provision for credit losses	3,867	3,689	11,022	10,719
Non-interest income:				
Service charges and other customer-related fees	414	417	1,203	1,233
Interchange fees, net	662	603	1,908	1,828
Net securities gains (losses)	68	1	64	(7)
Other	141	163	402	455
Total non-interest income	1,285	1,184	3,577	3,509
Non-interest expense:				
Salaries and associate benefits	1,524	1,317	4,378	3,866
Occupancy and equipment	471	499	1,416	1,422
Marketing	379	393	1,210	1,236
Professional services	297	257	823	762
Communications and data processing	294	291	871	873
Amortization of intangibles	61	89	184	285
Other	541	515	1,533	1,435
Total non-interest expense	3,567	3,361	10,415	9,879
Income from continuing operations before income taxes	1,585	1,512	4,184	4,349
Income tax provision	448	496	1,205	1,372
Income from continuing operations, net of tax	1,137	1,016	2,979	2,977
Income (loss) from discontinued operations, net of tax	(30)	(11)	(26)	(17)
Net income	1,107	1,005	2,953	2,960
Dividends and undistributed earnings allocated to participating securities	(8)	(6)	(21)	(18)
Preferred stock dividends	(52)	(37)	(185)	(139)
Net income available to common stockholders	$1,047	$962	$2,747	$2,803
Basic earnings per common share:				
Net income from continuing operations	$2.22	$1.94	$5.73	$5.50
Income (loss) from discontinued operations	(0.06)	(0.02)	(0.05)	(0.03)
Net income per basic common share	$2.16	$1.92	$5.68	$5.47
Diluted earnings per common share:				

Net income from continuing operations	$2.20	$1.92	$5.68	$5.45
Income (loss) from discontinued operations	(0.06)	(0.02)	(0.05)	(0.03)
Net income per diluted common share	$2.14	$1.90	$5.63	$5.42
Dividends paid per common share	$0.40	$0.40	$1.20	$1.20

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE INCOME (UNAUDITED)

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Net income	$1,107	$1,005	$2,953	$2,960
Other comprehensive income (loss), net of tax:				
Net unrealized gains (losses) on securities available for sale	10	10	195	333
Net changes in securities held to maturity	26	28	72	74
Net unrealized gains (losses) on cash flow hedges	(17)	(142)	(38)	378
Foreign currency translation adjustments	38	(20)	86	(49)
Other	4	4	12	1
Other comprehensive income (loss), net of tax	61	(120)	327	737
Comprehensive income	$1,168	$885	$3,280	$3,697

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED BALANCE SHEETS (UNAUDITED)

(Dollars in millions, except per share-related data)	September 30, 2017	December 31, 2016
Assets:		
Cash and cash equivalents:		
Cash and due from banks	$ 4,154	$ 4,185
Interest-bearing deposits and other short-term investments	4,330	5,791
Total cash and cash equivalents	8,484	9,976
Restricted cash for securitization investors	304	2,517
Securities available for sale, at fair value	39,742	40,737
Securities held to maturity, at carrying value	28,650	25,712
Loans held for investment:		
Unsecuritized loans held for investment	217,659	213,824
Loans held in consolidated trusts	34,763	31,762
Total loans held for investment	252,422	245,586
Allowance for loan and lease losses	(7,418)	(6,503)
Net loans held for investment	245,004	239,083
Loans held for sale, at lower of cost or fair value	1,566	1,043
Premises and equipment, net	3,955	3,675
Interest receivable	1,426	1,351
Goodwill	14,532	14,519
Other assets	17,739	18,420
Total assets	$ 361,402	$ 357,033
Liabilities:		
Interest payable	$ 301	$ 327
Deposits:		
Non-interest-bearing deposits	26,106	25,502
Interest-bearing deposits	212,956	211,266
Total deposits	239,062	236,768
Securitized debt obligations	17,087	18,826
Other debt:		
Federal funds purchased and securities loaned or sold under agreements to repurchase	767	992
Senior and subordinated notes	28,420	23,431
Other borrowings	13,184	17,211
Total other debt	42,371	41,634
Other liabilities	12,427	11,964
Total liabilities	311,248	309,519
Commitments, contingencies and guarantees (see Note 14)		
Stockholders' equity:		
Preferred stock (par value $.01 per share; 50,000,000 shares authorized; 4,475,000 shares issued and outstanding as of both September 30, 2017 and December 31, 2016)	0	0
Common stock (par value $.01 per share; 1,000,000,000 shares authorized; 660,583,843 and 653,736,607 shares issued as of September 30, 2017 and December 31, 2016, respectively, 484,419,510 and 480,218,547 shares outstanding as of September 30, 2017	7	7

and December 31, 2016, respectively)		
Additional paid-in capital, net	31,526	31,157
Retained earnings	31,946	29,766
Accumulated other comprehensive loss	(622)	(949)
Treasury stock, at cost (par value $.01 per share; 176,164,333 and 173,518,060 shares as of September 30, 2017 and December 31, 2016, respectively)	(12,703)	(12,467)
Total stockholders’ equity	50,154	47,514
Total liabilities and stockholders’ equity	$ 361,402	$ 357,033

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN STOCKHOLDERS' EQUITY (UNAUDITED)

(Dollars in millions)	Preferred Stock Shares	Preferred Stock Amount	Common Stock Shares	Common Stock Amount	Additional Paid-In Capital	Retained Earnings	Accumulated Other Comprehensive Income (Loss)	Treasury Stock	Total Stockholders' Equity
Balance as of December 31, 2016	4,475,000	$ 0	653,736,607	$ 7	$ 31,157	$ 29,766	$ (949)	$ (12,467)	$ 47,514
Comprehensive income (loss)						2,953	327		3,280
Dividends—common stock			37,777	0	3	(588)			(585)
Dividends—preferred stock						(185)			(185)
Purchases of treasury stock								(236)	(236)
Issuances of common stock and restricted stock, net of forfeitures			3,466,690	0	124				124
Exercises of stock options and warrants			3,342,769	0	102				102
Compensation expense for restricted stock awards, restricted stock units and stock options					140				140
Balance as of September 30, 2017	4,475,000	$ 0	660,583,843	$ 7	$ 31,526	$ 31,946	$ (622)	$ (12,703)	$ 50,154

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION

CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)

(Dollars in millions)	Nine Months Ended September 30, 2017	2016
Operating activities:		
Income from continuing operations, net of tax	$2,979	$2,977
Income (loss) from discontinued operations, net of tax	(26)	(17)
Net income	2,953	2,960
Adjustments to reconcile net income to net cash provided by operating activities:		
Provision for credit losses	5,625	4,707
Depreciation and amortization, net	1,719	1,819
Deferred tax benefit	(321)	(621)
Net (gains) losses on sales of securities available for sale	(69)	(3)
Impairment losses on securities available for sale	5	10
Gain on sales of loans held for sale	(42)	(77)
Stock plan compensation expense	164	150
Other	(4)	(10)
Loans held for sale:		
Originations and purchases	(6,776)	(6,122)
Proceeds from sales and paydowns	6,387	5,888
Changes in operating assets and liabilities:		
Changes in interest receivable	(47)	(63)
Changes in other assets	781	93
Changes in interest payable	(27)	(62)
Changes in other liabilities	(198)	1,166
Net change from discontinued operations	(59)	26
Net cash from operating activities	10,091	9,861
Investing activities:		
Securities available for sale:		
Purchases	(9,565)	(11,349)
Proceeds from paydowns and maturities	5,493	5,773
Proceeds from sales	5,793	3,528
Securities held to maturity:		
Purchases	(4,731)	(2,281)
Proceeds from paydowns and maturities	1,894	1,874
Loans:		
Net changes in loans held for investment	(7,690)	(13,068)
Principal recoveries of loans previously charged off	1,469	1,123
Purchases of premises and equipment	(776)	(508)
Net cash from acquisition activities	(3,220)	11
Net cash from other investing activities	(412)	(280)
Net cash from investing activities	(11,745)	(15,177)

See Notes to Consolidated Financial Statements.

Nine Months Ended September 30,

(Dollars in millions)	2017	2016
Financing activities:		
Deposits and borrowings:		
Changes in deposits	$2,268	$8,249
Issuance of securitized debt obligations	2,991	4,987
Maturities and paydowns of securitized debt obligations	(7,233)	(2,790)
Issuance of senior and subordinated notes and long-term FHLB advances	27,784	20,380
Maturities and paydowns of senior and subordinated notes and long-term FHLB advances	(26,871)	(22,401)
Changes in other borrowings	(210)	97
Common stock:		
Net proceeds from issuances	124	99
Dividends paid	(585)	(618)
Preferred stock:		
Net proceeds from issuances	0	583
Dividends paid	(185)	(139)
Purchases of treasury stock	(236)	(2,793)
Proceeds from share-based payment activities	102	3
Net cash from financing activities	(2,051)	5,657
Changes in cash, cash equivalents and restricted cash for securitization investors	(3,705)	341
Cash, cash equivalents and restricted cash for securitization investors, beginning of the period	12,493	9,040
Cash, cash equivalents and restricted cash for securitization investors, ending of the period	$8,788	$9,381
Supplemental cash flow information:		
Non-cash item:		
Net transfers from loans held for investment to loans held for sale	$449	$397
Securitized debt obligations assumed in acquisition	2,484	0
Interest paid	2,080	1,518
Income tax paid	779	1,551

See Notes to Consolidated Financial Statements.

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CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Company

Capital One Financial Corporation, a Delaware Corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company") offer a broad array of financial products and services to consumers, small businesses and commercial clients through branches, the internet and other distribution channels. As of September 30, 2017, 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."

We also offer products outside of the United States of America ("U.S.") principally through Capital One (Europe) plc ("COEP"), an indirect subsidiary of COBNA organized and located in the United Kingdom ("U.K."), and through a branch of COBNA in Canada. COEP has authority, among other things, to provide credit card loans. Our branch of COBNA in Canada also has the authority to provide credit card loans.

Our principal operations are currently organized for management reporting purposes into three major business segments, which are defined based on the products and services provided or the type of customer served: Credit Card, Consumer Banking and Commercial Banking. We provide details on our business segments, the integration of recent acquisitions, if any, into our business segments and the allocation methodologies and accounting policies used to derive our business segment results in "Note 13—Business Segments."

On September 25, 2017, we completed the acquisition from Synovus Bank of credit card assets and related liabilities of World's Foremost Bank, a wholly-owned subsidiary of Cabela's Incorporated ("Cabela's acquisition") for a total purchase price of $3.2 billion net of cash and restricted cash acquired. The Cabela's acquisition was accounted for as a business combination under the acquisition method of accounting, which requires, among other things, that we allocate the purchase price to the assets acquired and liabilities assumed based on our best estimates of fair value as of the acquisition date. As of the acquisition date, we recorded $6.0 billion of assets, which primarily consisted of $5.7 billion of credit card receivables, and assumed $2.6 billion of liabilities, of which $2.5 billion were securitized debt obligations. We expect to finalize the accounting for assets acquired and liabilities assumed in the Cabela's acquisition by December 31, 2017. Results of the Cabela's acquisition are included within our Credit Card segment.

Basis of Presentation and Use of Estimates

The accompanying consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. ("U.S. GAAP"). The preparation of financial statements in conformity with U.S. GAAP requires management to make estimates and assumptions that affect the amounts reported in the consolidated financial statements and in the related disclosures. These estimates are based on information available as of the date of the consolidated financial statements. While management makes its best judgment, actual amounts or results could differ from these estimates. In the opinion of management, all normal, recurring adjustments have been included for a fair statement of this interim financial information. Certain prior period amounts have been reclassified to conform to the current period presentation.

These unaudited consolidated financial statements should be read in conjunction with the audited consolidated financial statements, and related notes thereto, included in Capital One Financial Corporation's 2016 Form 10-K.

Principles of Consolidation

The unaudited consolidated financial statements include the accounts of Capital One Financial Corporation and all other entities in which we have a controlling financial interest. We determine whether we have a controlling financial interest in an entity by first evaluating whether the entity is a voting interest entity or a variable interest entity ("VIE").

All significant intercompany account balances and transactions have been eliminated.
Loans
Charge-Offs
In the second quarter of 2017, we implemented changes in accounting estimates impacting our charge-off practices for the treatment of certain loans within our consumer banking loan portfolio. This includes changes to the charge-off timing of auto and home loans where the borrower has filed for bankruptcy and the loans have not been reaffirmed, which are now charged off in the period that the loan is 60 days from the bankruptcy notification date.
Newly Adopted Accounting Standards
Restricted Cash
In November 2016, the Financial Accounting Standards Board ("FASB") issued revised guidance that requires restricted cash and restricted cash equivalents to be included within beginning and ending total cash amounts reported in the consolidated statements of cash flows. Disclosure of the nature of the restrictions on cash balances is required under the guidance. We have elected to early adopt the guidance retrospectively effective as of January 1, 2017. Upon adoption, changes in restricted cash, which had previously been presented as financing activities, are now included within beginning and ending Cash, cash equivalents and restricted cash for securitization investors balances.
The Cash, cash equivalents and restricted cash for securitization investors balances presented in the consolidated statements of cash flows are comprised of the amounts captioned on the consolidated balance sheets as Total cash and cash equivalents and Restricted cash for securitization investors.
Improvements to Employee Share-Based Accounting
In March 2016, the FASB issued revised guidance for accounting for employee share-based payments. The guidance requires that all excess tax benefits and tax deficiencies that pertain to employee stock-based incentive payments be recognized as income tax expense or benefit in the consolidated statements of income, rather than within additional paid-in capital; and that excess tax benefits be classified as an operating activity rather than financing activity in the consolidated statements of cash flows. The guidance also permits an accounting policy election to either estimate the number of awards that are expected to vest or account for forfeitures when they occur. We adopted the guidance effective in the first quarter of 2017 on a prospective basis related to recognition of excess tax benefits and deficiencies in the consolidated statements of income and presentation of excess tax benefits in the consolidated statements of cash flows. In addition, we made an accounting policy election to account for forfeitures of awards as they occur and applied a modified retrospective transition method. Our adoption of this guidance did not have a material impact to our consolidated financial statements.
Recently Issued but Not Yet Adopted Accounting Standards
Targeted Improvements to Accounting for Hedging Activities
In August 2017, the FASB issued new hedge accounting guidance to amend the existing hedge accounting recognition and presentation requirements. The amendments better align an entity's risk management activities and financial reporting for hedging relationships through changes to both the designation and measurement guidance for qualifying hedging relationships and the presentation of the impacts of those hedging relationships. The guidance is effective for us on January 1, 2019, with early adoption permitted. We are currently assessing the potential impacts of this guidance to our existing risk management practices as well as the overall effects on our consolidated financial statements and related disclosures. We are currently evaluating the overall impact of adopting this standard earlier than required.
Premium Amortization on Purchased Callable Debt Securities
In March 2017, the FASB issued revised guidance to shorten the amortization period to the earliest call date for certain purchased callable debt securities held at a premium. There is no change for accounting for securities held at a discount. Under the existing guidance, the premium is generally amortized as an adjustment to interest income over the contractual life of the debt security. We do not expect the adoption of this guidance to have a material impact on our consolidated financial statements. This guidance is effective for us on January 1, 2019, with early adoption permitted, using the modified retrospective method of adoption. We plan to adopt the standard on its effective date.
Simplifying the Test for Goodwill Impairment
In January 2017, the FASB issued revised guidance which is intended to reduce the cost and complexity of testing goodwill for impairment by eliminating the second step from the current goodwill impairment test. Under the existing guidance, the first step compares a reporting unit's carrying value to its fair value. If the carrying value exceeds fair value, an entity performs the second step, which assigns the reporting unit's fair value to its assets and liabilities,

including unrecognized assets and liabilities, in the same manner as required in purchase accounting. Under the new guidance, any impairment of a reporting unit's goodwill is determined based on the amount by which the reporting unit's carrying value exceeds its fair value, limited to the amount of goodwill allocated to the reporting unit. This guidance is effective for us on January 1, 2020, with early adoption permitted, using the prospective method of adoption. We plan to adopt the standard on its effective date.

Measurement of Credit Losses on Financial Instruments

In June 2016, the FASB issued revised guidance for impairments on financial instruments. The guidance requires an impairment model (known as the current expected credit loss ("CECL") model) that is based on expected rather than incurred losses, with an anticipated result of more timely loss recognition. The CECL model is applicable to financial assets measured at amortized cost, net investments in leases that are not accounted for at fair value through net income and certain off-balance sheet arrangements. The CECL model will replace our current accounting for purchased credit-impaired ("PCI") and impaired loans. The guidance also amends the available for sale ("AFS") debt securities other-than-temporary impairment ("OTTI") model. Credit losses (and subsequent recoveries) on AFS debt securities will be recorded through an allowance approach, rather than the current U.S. GAAP practice of permanent write-downs for credit losses and accreting positive changes through interest income over time.

This guidance is effective for us on January 1, 2020, with early adoption permitted no earlier than January 1, 2019, using the modified retrospective method of adoption. We plan to adopt the standard on its effective date. We have established a company-wide, cross-functional governance structure for our implementation of this standard. We are in the process of determining key accounting interpretations, data requirements and necessary changes to our credit loss estimation methods, processes and systems. We continue to assess the potential impact on our consolidated financial statements and related disclosures. Due to the significant differences in the revised guidance from existing U.S. GAAP, the implementation of this guidance may result in material changes in our accounting for credit losses on financial instruments.

Leases

In February 2016, the FASB issued revised guidance for leases. The guidance requires lessees to recognize right of use assets and lease liabilities on their consolidated balance sheets and disclose key information about all their leasing arrangements, with certain practical expedients. This guidance is effective for us on January 1, 2019, with early adoption permitted, using the modified retrospective method of adoption. We plan to adopt the standard on the effective date. We are currently in the process of reviewing lease contracts, establishing new processes and internal controls, evaluating the impact of various accounting policy elections and the potential impact on our consolidated financial statements. We expect our total assets and liabilities to increase.

Recognition and Measurement of Financial Assets and Financial Liabilities

In January 2016, the FASB issued revised guidance for the recognition, measurement, presentation, and disclosure of financial instruments. The main provisions of the guidance include, (i) the measurement of most equity investments at fair value with changes in fair value recorded through net income, except those accounted for under the equity method of accounting, or those that do not have a readily determinable fair value (for which a practical expedient can be elected); (ii) the required use of the exit price notion when valuing financial instruments for disclosure purposes; (iii) the separate presentation in other comprehensive income of the instrument-specific credit risk portion of the total change in the fair value of a liability under the fair value option; (iv) the determination of the need for a valuation allowance on a deferred tax asset related to AFS securities must be made in combination with other deferred tax assets. The guidance eliminates the current classifications of equity securities as trading or AFS and will require separate presentation of financial assets and liabilities by category and form of the financial assets on the face of the consolidated balance sheets or within the accompanying notes. The guidance also eliminates the requirement to disclose the methods and significant assumptions used to estimate fair value of financial instruments measured at amortized cost on the balance sheet. This guidance is effective for us on January 1, 2018. Early adoption is only permitted for the requirement to present the portion of the total change in fair value attributable to a change in the instrument-specific credit risk in other comprehensive income. We plan to adopt the standard on its effective date, and do not expect such adoption to have a material impact on our consolidated financial statements.

Revenue from Contracts with Customers

In May 2014, the FASB issued revised guidance for the recognition, measurement and disclosure of revenue from contracts with customers. The original guidance has been amended through subsequent accounting standard updates that resulted in technical corrections, improvements, and a one-year deferral of the effective date to January 1, 2018. The guidance, as amended, is applicable to all entities and, once effective, will replace significant portions of existing industry and transaction-specific revenue recognition rules with a more principles-based recognition model. Entities can elect to apply either a full or modified retrospective method of adoption.

Most revenue associated with financial instruments, including interest income, loan origination fees and credit card fees, is outside the scope of the guidance. Gains and losses on investment securities, derivatives and sales of financial instruments are similarly excluded from the scope. Our implementation efforts have included identifying revenues and related costs within the scope of this guidance, reviewing the associated contracts and evaluating the related accounting policies and internal controls to determine if any changes will be required. We have substantially completed the evaluation of the potential impact of this guidance on the timing, recognition, and presentation of revenues and expenses and have not identified any material changes. We continue to evaluate and prepare for the new disclosures required by this guidance. We plan to adopt the standard on its effective date, using the modified retrospective method of adoption.

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NOTE 2—DISCONTINUED OPERATIONS

Our discontinued operations consist of the mortgage origination operations of our wholesale mortgage banking unit, GreenPoint Mortgage Funding, Inc. (“GreenPoint”) and the manufactured housing operations of GreenPoint Credit, LLC, a subsidiary of GreenPoint, both of which were acquired as part of the North Fork Bancorporation, Inc. (“North Fork”) acquisition in December 2006. Although the manufactured housing operations were sold to a third party in 2004 prior to our acquisition of North Fork, we acquired certain retained interests and obligations related to those operations as part of the acquisition. Separately, in the third quarter of 2007 we closed the mortgage origination operations of the wholesale mortgage banking unit. The results of both the wholesale banking unit and the manufactured housing operations have been accounted for as discontinued operations and are reported as income or loss from discontinued operations, net of tax, on the consolidated statements of income. As of September 30, 2017, we had no significant continuing involvement in these operations.

The following table summarizes the results from discontinued operations for the three and nine months ended September 30, 2017 and 2016:

Table 2.1: Results of Discontinued Operations

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Income (loss) from discontinued operations before income taxes	$(47)	$(17)	$(40)	$(27)
Income tax provision (benefit)	(17)	(6)	(14)	(10)
Income (loss) from discontinued operations, net of tax	$(30)	$(11)	$(26)	$(17)

The discontinued mortgage origination operations of our wholesale mortgage banking unit have remaining assets primarily consisting of a deferred tax asset related to the reserve for representations and warranties on loans previously sold to third parties. As of September 30, 2017, we had contingent obligations to exercise mandatory clean-up calls associated with certain securitization transactions undertaken by the discontinued GreenPoint Credit, LLC manufactured housing operations in the event the third-party servicer could not fulfill its obligation to exercise these clean-up calls. On October 10, 2017, we entered into an agreement with the third-party servicer under which we assumed the mandatory obligation to exercise the remaining clean-up calls as they become due on certain securitization transactions. See “Note 6—Variable Interest Entities and Securitizations” and “Note 14—Commitments, Contingencies, Guarantees and Others” for information on the reserve related to our retained interests and obligations associated with GreenPoint Credit, LLC manufactured housing operations and the reserves we have established for our mortgage representation and warranty exposure.

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NOTE 3—INVESTMENT SECURITIES

Our investment portfolio consists primarily of the following: U.S. Treasury securities; U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"); Agency and non-agency commercial mortgage-backed securities ("CMBS"); other asset-backed securities ("ABS"); and other securities. The carrying value of our investments in U.S. Treasury and Agency securities represented 92% and 91% of our total investment securities as of September 30, 2017 and December 31, 2016, respectively.

The table below presents the overview of our investment securities portfolio as of September 30, 2017 and December 31, 2016.

Table 3.1: Overview of Investment Securities Portfolio

(Dollars in millions)	September 30, 2017	December 31, 2016
Securities available for sale, at fair value	$ 39,742	$ 40,737
Securities held to maturity, at carrying value	28,650	25,712
Total investment securities	$ 68,392	$ 66,449

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of September 30, 2017 and December 31, 2016.

Table 3.2: Investment Securities Available for Sale

	September 30, 2017			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses(1)	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$5,110	$ 29	$ 0	$5,139
RMBS:				
Agency(2)	26,186	109	(256)	26,039
Non-agency	1,797	402	0	2,199
Total RMBS	27,983	511	(256)	28,238
CMBS:				
Agency(2)	3,033	16	(28)	3,021
Non-agency	1,783	27	(2)	1,808
Total CMBS	4,816	43	(30)	4,829
Other ABS(3)	546	1	0	547
Other securities(4)	984	6	(1)	989
Total investment securities available for sale	$39,439	$ 590	$ (287)	$39,742

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	December 31, 2016			
(Dollars in millions)	Amortized Cost	Gross Unrealized Gains	Gross Unrealized Losses[1]	Fair Value
Investment securities available for sale:				
U.S. Treasury securities	$5,103	$ 11	$ (49)	$5,065
RMBS:				
Agency[2]	26,830	109	(412)	26,527
Non-agency	2,349	382	(9)	2,722
Total RMBS	29,179	491	(421)	29,249
CMBS:				
Agency[2]	3,335	14	(45)	3,304
Non-agency	1,676	21	(13)	1,684
Total CMBS	5,011	35	(58)	4,988
Other ABS[3]	714	1	(1)	714
Other securities[4]	726	1	(6)	721
Total investment securities available for sale	$40,733	$ 539	$ (535)	$40,737

(1) Includes non-credit-related OTTI that is recorded in accumulated other comprehensive income ("AOCI") of $1 million and $9 million as of September 30, 2017 and December 31, 2016, respectively. Substantially all of this amount is related to non-agency RMBS.

(2) Includes Government National Mortgage Association ("Ginnie Mae") guaranteed securities, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") issued securities.

(3) ABS collateralized by credit card loans constituted approximately 56% and 57% of the other ABS portfolio as of September 30, 2017 and December 31, 2016, respectively, and ABS collateralized by auto dealer floor plan inventory loans and leases constituted approximately 23% of the other ABS portfolio as of both September 30, 2017 and December 31, 2016.

(4) Includes supranational bonds, foreign government bonds, mutual funds and equity investments.

The table below presents the amortized cost, carrying value, gross unrealized gains and losses, and fair value of securities held to maturity as of September 30, 2017 and December 31, 2016.

Table 3.3: Investment Securities Held to Maturity

	September 30, 2017					
(Dollars in millions)	Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value
U.S. Treasury securities	$199	$ 0	$199	$ 0	$ 0	$199
Agency RMBS	25,590	(795)	24,795	704	(102)	25,397
Agency CMBS	3,737	(81)	3,656	97	(22)	3,731
Total investment securities held to maturity	$29,526	$ (876)	$28,650	$ 801	$ (124)	$29,327

	December 31, 2016					
(Dollars in millions)	Amortized Cost	Unrealized Losses Recorded in AOCI[1]	Carrying Value	Gross Unrealized Gains	Gross Unrealized Losses	Fair Value

U.S. Treasury securities	$199	$ 0	$199	$ 0	$ 0	$199
Agency RMBS	23,022	(897)	22,125	606	(158)	22,573
Agency CMBS	3,480	(92)	3,388	77	(41)	3,424
Total investment securities held to maturity	$26,701	$ (989)	$25,712	$ 683	$ (199)	$26,196

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(1) Certain investment securities were transferred from the available for sale category to the held to maturity category in 2013. This amount represents the unrealized holding gain or loss at the date of transfer, net of any subsequent accretion. Any bonds purchased into the securities held to maturity portfolio rather than transferred, will not have unrealized losses recognized in AOCI.

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Investment Securities in a Gross Unrealized Loss Position

The table below provides, by major security type, information about our securities available for sale in a gross unrealized loss position and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2017 and December 31, 2016.

Table 3.4: Securities in a Gross Unrealized Loss Position

	September 30, 2017					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	$1	$ 0	$0	$ 0	$1	$ 0
RMBS:						
Agency	9,699	(85)	8,237	(171)	17,936	(256)
Non-agency	9	0	11	0	20	0
Total RMBS	9,708	(85)	8,248	(171)	17,956	(256)
CMBS:						
Agency	828	(8)	818	(20)	1,646	(28)
Non-agency	177	0	152	(2)	329	(2)
Total CMBS	1,005	(8)	970	(22)	1,975	(30)
Other ABS	116	0	52	0	168	0
Other securities	364	(1)	0	0	364	(1)
Total investment securities available for sale in a gross unrealized loss position	$11,194	$ (94)	$9,270	$ (193)	$20,464	$ (287)

	December 31, 2016					
	Less than 12 Months		12 Months or Longer		Total	
(Dollars in millions)	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses	Fair Value	Gross Unrealized Losses
Investment securities available for sale:						
U.S. Treasury securities	$1,060	$ (49)	$0	$ 0	$1,060	$ (49)
RMBS:						
Agency	16,899	(329)	4,865	(83)	21,764	(412)
Non-agency	128	(2)	145	(7)	273	(9)
Total RMBS	17,027	(331)	5,010	(90)	22,037	(421)
CMBS:						
Agency	1,624	(21)	745	(24)	2,369	(45)
Non-agency	826	(11)	129	(2)	955	(13)
Total CMBS	2,450	(32)	874	(26)	3,324	(58)
Other ABS	187	(1)	21	0	208	(1)
Other securities	417	(6)	0	0	417	(6)
Total investment securities available for sale in a gross unrealized loss position	$21,141	$ (419)	$5,905	$ (116)	$27,046	$ (535)

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As of September 30, 2017, the amortized cost of approximately 680 securities available for sale exceeded their fair value by $287 million, of which $193 million related to securities that had been in a loss position for 12 months or longer. As of September 30, 2017, our investments in non-agency RMBS and CMBS, other ABS and other securities accounted for $3 million, or 1%, of total gross unrealized losses on securities available for sale. As of September 30, 2017, the carrying value of approximately 160 securities classified as held to maturity exceeded their fair value by $124 million.

The unrealized losses related to investment securities for which we have not recognized credit impairment were primarily attributable to changes in market interest rates. As discussed in more detail below, we conduct periodic reviews of all investment securities with unrealized losses to assess whether impairment is other-than-temporary.

Maturities and Yields of Investment Securities

The following tables summarize the remaining scheduled contractual maturities, assuming no prepayments, of our investment securities as of September 30, 2017.

Table 3.5: Contractual Maturities of Securities Available for Sale

(Dollars in millions)	September 30, 2017 Amortized Cost	Fair Value
Due in 1 year or less	$730	$ 731
Due after 1 year through 5 years	2,983	3,013
Due after 5 years through 10 years	6,650	6,694
Due after 10 years[1]	29,076	29,304
Total	$39,439	$ 39,742

(1) Investments with no stated maturities, which consist of equity securities, are included with contractual maturities due after 10 years.

Table 3.6: Contractual Maturities of Securities Held to Maturity

(Dollars in millions)	September 30, 2017 Carrying Value	Fair Value
Due in 1 year or less	$200	$ 199
Due after 1 year through 5 years	753	795
Due after 5 years through 10 years	598	625
Due after 10 years	27,099	27,708
Total	$28,650	$ 29,327

Because borrowers may have the right to call or prepay certain obligations, the expected maturities of our securities are likely to differ from the scheduled contractual maturities presented above.

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The table below summarizes, by major security type, the expected maturities and weighted-average yields of our investment securities as of September 30, 2017.

Table 3.7: Expected Maturities and Weighted-Average Yields of Securities

	September 30, 2017				
(Dollars in millions)	Due in 1 Year or Less	Due > 1 Year through 5 Years	Due > 5 Years through 10 Years	Due > 10 Years	Total
Fair value of securities available for sale:					
U.S. Treasury securities	$202	$647	$4,290	$0	$5,139
RMBS:					
Agency	173	12,086	13,780	0	26,039
Non-agency	11	1,094	860	234	2,199
Total RMBS	184	13,180	14,640	234	28,238
CMBS:					
Agency	151	1,899	971	0	3,021
Non-agency	178	1,207	423	0	1,808
Total CMBS	329	3,106	1,394	0	4,829
Other ABS	282	265	0	0	547
Other securities	206	335	352	96	989
Total securities available for sale	$1,203	$17,533	$20,676	$330	$39,742
Amortized cost of securities available for sale	$1,204	$17,346	$20,598	$291	$39,439
Weighted-average yield for securities available for sale[1]	1.42 %	2.51 %	2.32 %	6.26 %	2.40 %
Carrying value of securities held to maturity:					
U.S. Treasury securities	$199	$0	$0	$0	$199
Agency RMBS	22	1,781	18,421	4,571	24,795
Agency CMBS	0	1,955	628	1,073	3,656
Total securities held to maturity	$221	$3,736	$19,049	$5,644	$28,650
Fair value of securities held to maturity	$220	$3,832	$19,513	$5,762	$29,327
Weighted-average yield for securities held to maturity[1]	0.67 %	2.52 %	2.67 %	3.33 %	2.76 %

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(1) The weighted-average yield represents the effective yield for the investment securities and is calculated based on the amortized cost of each security.

Other-Than-Temporary Impairment

We evaluate all securities in an unrealized loss position at least on a quarterly basis, and more often as market conditions require, to assess whether the impairment is other-than-temporary. Our OTTI assessment is based on a discounted cash flow analysis which requires careful use of judgments and assumptions. A number of qualitative and quantitative criteria may be considered in our assessment as applicable, including the size and the nature of the portfolio; historical and projected performance such as prepayment, default and loss severity for the RMBS portfolio; recent credit events specific to the issuer and/or industry to which the issuer belongs; the payment structure of the security; external credit ratings of the issuer and any failure or delay of the issuer to make scheduled interest or principal payments; the value of underlying collateral; our intent and ability to hold the security; and current and projected market and macro-economic conditions.

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 earnings. As of September 30, 2017, for any securities with unrealized losses recorded in AOCI, we do not intend to sell, nor believe that we will be required to sell, these securities prior to recovery of their amortized cost.

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For those securities that we do not intend to sell nor expect to be required to sell, an analysis is performed to determine if any of the impairment is due to credit-related factors or whether it is due to other factors, such as interest rates. Credit-related impairment is recognized in earnings, with the remaining unrealized non-credit-related impairment recorded in AOCI. We determine the credit component based on the difference between the security's amortized cost basis and the present value of its expected cash flows, discounted based on the effective yield.

The table below presents a rollforward of the credit-related OTTI recognized in earnings for the three and nine months ended September 30, 2017 and 2016 on investment securities for which we had no intent to sell.

Table 3.8: Credit Impairment Rollforward

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Credit loss component, beginning of period	$207	$204	$207	$199
Additions:				
Initial credit impairment	1	0	1	1
Subsequent credit impairment	0	0	1	7
Total additions	1	0	2	8
Reductions due to payoffs, disposals, transfers and other	(61)	0	(62)	(3)
Credit loss component, end of period	$147	$204	$147	$204

Realized Gains and Losses on Securities and OTTI Recognized in Earnings

The following table presents the gross realized gains and losses on the sale and redemption of securities available for sale, and the OTTI losses recognized in earnings for the three and nine months ended September 30, 2017 and 2016. We also present the proceeds from the sale of securities available for sale for the periods presented. We did not sell any investment securities that are classified as held to maturity.

Table 3.9: Realized Gains and Losses and OTTI Recognized in Earnings

	Three Months Ended September 30,		Nine Months Ended September 30,	
(Dollars in millions)	2017	2016	2017	2016
Realized gains (losses):				
Gross realized gains	$118	$2	$123	$8
Gross realized losses	(49)	(1)	(54)	(5)
Net realized gains	69	1	69	3
OTTI recognized in earnings:				
Credit-related OTTI	(1)	0	(2)	(8)
Intent-to-sell OTTI	0	0	(3)	(2)
Total OTTI recognized in earnings	(1)	0	(5)	(10)
Net securities gains (losses)	$68	$1	$64	$(7)
Total proceeds from sales	$2,670	$828	$5,793	$3,528

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Securities Pledged and Received

As part of our liquidity management strategy, we pledge securities to secure borrowings from counterparties including the Federal Home Loan Banks ("FHLB"). We also pledge securities to secure trust and public deposits and for other purposes as required or permitted by law. We pledged securities available for sale with a fair value of $1.6 billion and $1.9 billion as of September 30, 2017 and December 31, 2016, respectively. We also pledged securities held to maturity with a carrying value of $7.8 billion and $8.1 billion as of September 30, 2017 and December 31, 2016, respectively. Of the total securities pledged as collateral, we have encumbered a fair value of $8.7 billion and $9.3 billion as of September 30, 2017 and December 31, 2016, respectively, primarily related to Public Fund deposits. We accepted pledges of securities with a fair value of $1 million and $16 million as of September 30, 2017 and December 31, 2016, respectively, primarily related to our derivative transactions.

Purchased Credit-Impaired Debt Securities

The table below presents the outstanding balance and carrying value of the purchased credit-impaired debt securities as of September 30, 2017 and December 31, 2016.

Table 3.10: Outstanding Balance and Carrying Value of Acquired Credit-Impaired Debt Securities

(Dollars in millions)	September 30, 2017	December 31, 2016
Outstanding balance	$ 2,226	$ 2,899
Carrying value	1,913	2,277

Changes in Accretable Yield of Purchased Credit-Impaired Debt Securities

The following table presents changes in the accretable yield related to the purchased credit-impaired debt securities for the three and nine months ended September 30, 2017.

Table 3.11: Changes in the Accretable Yield of Purchased Credit-Impaired Debt Securities

(Dollars in millions)	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2017
Accretable yield, beginning of period	$ 1,093	$ 1,173
Accretion recognized in earnings	(46)	(144)
Reduction due to payoffs, disposals, transfers and other	(154)	(157)
Net reclassifications from nonaccretable difference	(35)	(14)
Accretable yield, end of period	$ 858	$ 858

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NOTE 4—LOANS

Loan Portfolio Composition

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale, and is divided into three portfolio segments: credit card, consumer banking and commercial banking. Credit card loans consist of domestic and international credit card loans. Consumer banking loans consist of auto, home and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate, commercial and industrial, and small-ticket commercial real estate loans.

Our portfolio of loans held for investment also includes certain consumer and commercial loans acquired through business combinations that were recorded at fair value at acquisition and subsequently accounted for based on cash flows expected to be collected, which are referred to as PCI loans. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for additional information on the accounting guidance for these loans. The credit metrics presented in this section exclude loans held for sale, which are carried at lower of cost or fair value.

Credit Quality

We closely monitor economic conditions and loan performance trends to manage and evaluate our exposure to credit risk. Trends in delinquency rates are an indicator, among other considerations, of credit risk within our loan portfolio. The level of nonperforming loans represents another indicator of the potential for future credit losses. Accordingly, key metrics we track and use in evaluating the credit quality of our loan portfolio include delinquency and nonperforming loan rates, as well as net charge-off rates and our internal risk ratings of larger balance commercial loans.

The table below presents the composition and an aging analysis of our loans held for investment portfolio as of September 30, 2017 and December 31, 2016. The delinquency aging includes all past due loans, both performing and nonperforming.

Table 4.1: Loan Portfolio Composition and Aging Analysis

	September 30, 2017						
(Dollars in millions)	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	$96,010	$1,223	$871	$1,846	$ 3,940	$31	$99,981
International card businesses	8,810	135	78	126	339	0	9,149
Total credit card	104,820	1,358	949	1,972	4,279	31	109,130
Consumer Banking:							
Auto	49,945	2,125	944	276	3,345	0	53,290
Home loan	7,294	36	12	48	96	11,430	18,820
Retail banking	3,387	21	7	18	46	21	3,454
Total consumer banking	60,626	2,182	963	342	3,487	11,451	75,564
Commercial Banking:							
Commercial and multifamily real estate	27,839	12	1	67	80	25	27,944
Commercial and industrial	38,495	52	93	188	333	478	39,306
Total commercial lending	66,334	64	94	255	413	503	67,250
Small-ticket commercial real estate	412	3	1	4	8	0	420
Total commercial banking	66,746	67	95	259	421	503	67,670
Other loans	54	1	1	2	4	0	58
Total loans[(1)]	$232,246	$3,608	$2,008	$2,575	$ 8,191	$11,985	$252,422

% of Total loans	92.01 %	1.43 %	0.79 %	1.02 %	3.24 %	4.75 %	100.00 %

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	December 31, 2016						
(Dollars in millions)	Current	30-59 Days	60-89 Days	> 90 Days	Total Delinquent Loans	PCI Loans	Total Loans
Credit Card:							
Domestic credit card	$93,279	$1,153	$846	$1,840	$ 3,839	$2	$97,120
International card businesses	8,115	124	72	121	317	0	8,432
Total credit card	101,394	1,277	918	1,961	4,156	2	105,552
Consumer Banking:							
Auto	44,762	2,041	890	223	3,154	0	47,916
Home loan	6,951	44	20	141	205	14,428	21,584
Retail banking	3,477	22	7	20	49	28	3,554
Total consumer banking	55,190	2,107	917	384	3,408	14,456	73,054
Commercial Banking:							
Commercial and multifamily real estate	26,536	45	0	0	45	28	26,609
Commercial and industrial	38,831	27	84	297	408	585	39,824
Total commercial lending	65,367	72	84	297	453	613	66,433
Small-ticket commercial real estate	473	7	1	2	10	0	483
Total commercial banking	65,840	79	85	299	463	613	66,916
Other loans	56	3	0	5	8	0	64
Total loans[(1)]	$222,480	$3,466	$1,920	$2,649	$ 8,035	$15,071	$245,586
% of Total loans	90.59 %	1.41 %	0.78 %	1.08 %	3.27 %	6.14 %	100.00 %

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(1) Loans (other than PCI loans) include unearned income, unamortized premiums and discounts, and unamortized deferred fees and costs totaling $739 million and $558 million as of September 30, 2017 and December 31, 2016, respectively.

We pledged loan collateral of $28.5 billion and $29.3 billion to secure the majority of our FHLB borrowing capacity of $22.9 billion and $24.9 billion as of September 30, 2017 and December 31, 2016, respectively.

The following table presents the outstanding balance of loans 90 days or more past due that continue to accrue interest and loans classified as nonperforming as of September 30, 2017 and December 31, 2016.

Table 4.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans[(1)]

	September 30, 2017		December 31, 2016	
(Dollars in millions)	> 90 Days and Accruing	Nonperforming Loans	> 90 Days and Accruing	Nonperforming Loans
Credit Card:				
Domestic credit card	$ 1,846	N/A	$ 1,840	N/A
International card businesses	120	$ 25	96	$ 42
Total credit card	1,966	25	1,936	42
Consumer Banking:				
Auto	0	346	0	223
Home loan	0	158	0	273
Retail banking	0	33	0	31
Total consumer banking	0	537	0	527

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(Dollars in millions)	September 30, 2017 > 90 Days and Accruing	Nonperforming Loans	December 31, 2016 > 90 Days and Accruing	Nonperforming Loans
Commercial Banking:				
Commercial and multifamily real estate	$4	$ 64	$0	$ 30
Commercial and industrial	0	717	0	988
Total commercial lending	4	781	0	1,018
Small-ticket commercial real estate	0	7	0	4
Total commercial banking	4	788	0	1,022
Other loans	0	4	0	8
Total	$1,970	$ 1,354	$1,936	$ 1,599
% of Total loans	0.78 %	0.54 %	0.79 %	0.65 %

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(1) Nonperforming loans generally include loans that have been placed on nonaccrual status. PCI loans are excluded from loans reported as 90 days or more past due and accruing interest as well as nonperforming loans. See “Note 1—Summary of Significant Accounting Policies” in our 2016 Form 10-K for additional information on our policies for nonperforming loans.

Credit Card

Our credit card loan portfolio is highly diversified across millions of accounts and numerous geographies without significant individual exposure. We therefore generally manage credit risk based on portfolios with common risk characteristics. The risk in our credit card loan portfolio correlates to broad economic trends, such as unemployment rates and home values, as well as consumers’ financial condition, all of which can have a material effect on credit performance. The primary indicators we assess in monitoring the credit quality and risk of our credit card portfolio are delinquency and charge-off trends, including an analysis of loan migration between delinquency categories over time. The table below displays the geographic profile of our credit card loan portfolio as of September 30, 2017 and December 31, 2016.

Table 4.3: Credit Card Risk Profile by Geographic Region

(Dollars in millions)	September 30, 2017 Amount	% of Total[1]	December 31, 2016 Amount	% of Total[1]
Domestic credit card:				
California	$10,946	10.0 %	$11,068	10.5 %
Texas	7,474	6.8	7,227	6.8
New York	7,069	6.5	7,090	6.7
Florida	6,453	5.9	6,540	6.2
Illinois	4,499	4.1	4,492	4.3
Pennsylvania	4,294	3.9	4,048	3.8
Ohio	3,689	3.4	3,654	3.5
New Jersey	3,441	3.2	3,488	3.3
Michigan	3,334	3.1	3,164	3.0
Other	48,782	44.7	46,349	43.9
Total domestic credit card	99,981	91.6	97,120	92.0
International card businesses:				
Canada	6,070	5.6	5,594	5.3

United Kingdom	3,079	2.8	2,838	2.7
Total international card businesses	9,149	8.4	8,432	8.0
Total credit card	$109,130	100.0%	$105,552	100.0%

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(1) Percentages by geographic region are calculated based on period-end amounts.

The table below presents net charge-offs for the three and nine months ended September 30, 2017 and 2016.

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Table 4.4: Credit Card Net Charge-Offs

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:[1]								
Domestic credit card[2]	$1,087	4.64 %	$841	3.74 %	$3,455	4.96 %	$2,602	3.99 %
International card businesses	68	3.08	65	3.18	227	3.60	203	3.32
Total credit card[2]	$1,155	4.51	$906	3.70	$3,682	4.85	$2,805	3.93

(1) Net charge-offs consist of the unpaid principal balance that we determine to be uncollectible, net of recovered amounts. The net charge-off rate is calculated by dividing annualized net charge-offs by average balance of loans held for investment for the period for each loan category. Net charge-offs and the net charge-off rate are impacted periodically by fluctuations in recoveries, including loan sales.

(2) On September 25, 2017, we completed the Cabela's acquisition. The domestic credit card metrics reported above for the three and nine months ended September 30, 2017 include the impact of this acquisition. Excluding this impact (i) the total credit card and domestic credit card net charge-off rate for the three months ended September 30, 2017 would have been 4.52% and 4.66%, respectively; and (ii) the total credit card and domestic credit card net charge-off rate for the nine months ended September 30, 2017 would have been 4.85% and 4.97%, respectively.

Consumer Banking

Our consumer banking loan portfolio consists of auto, home and retail banking loans. Similar to our credit card loan portfolio, the risk in our consumer banking loan portfolio correlates to broad economic trends, such as unemployment rates, gross domestic product ("GDP") and home values, as well as consumers' financial condition, all of which can have a material effect on credit performance. Delinquency, nonperforming loans and charge-off trends are key indicators we assess in monitoring the credit quality and risk of our consumer banking loan portfolio.

The table below displays the geographic profile of our consumer banking loan portfolio, including PCI loans as of September 30, 2017 and December 31, 2016.

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Table 4.5: Consumer Banking Risk Profile by Geographic Region

	September 30, 2017		December 31, 2016	
(Dollars in millions)	Amount	% of Total[1]	Amount	% of Total[1]
Auto:				
Texas	$6,961	9.2 %	$6,304	8.6 %
California	6,052	8.0	5,448	7.5
Florida	4,402	5.8	3,985	5.5
Georgia	2,715	3.6	2,506	3.4
Ohio	2,265	3.0	2,017	2.8
Louisiana	2,260	3.0	2,159	3.0
Illinois	2,188	2.9	2,065	2.8
Other	26,447	35.0	23,432	32.0
Total auto	53,290	70.5	47,916	65.6
Home loan:				
California	4,115	5.4	4,993	6.8
New York	1,985	2.6	2,036	2.8
Maryland	1,287	1.7	1,409	1.9
Virginia	1,102	1.5	1,204	1.7
Illinois	1,053	1.4	1,218	1.7
New Jersey	1,000	1.3	1,112	1.5
Texas	883	1.2	823	1.1
Other	7,395	9.8	8,789	12.0
Total home loan	18,820	24.9	21,584	29.5
Retail banking:				
Louisiana	977	1.3	1,010	1.4
New York	934	1.2	941	1.3
Texas	718	1.0	756	1.0
New Jersey	219	0.3	238	0.3
Maryland	187	0.2	190	0.3
Virginia	154	0.2	156	0.2
Other	265	0.4	263	0.4
Total retail banking	3,454	4.6	3,554	4.9
Total consumer banking	$75,564	100.0 %	$73,054	100.0 %

[1] Percentages by geographic region are calculated based on period-end amounts.

The table below presents nonperforming loans in our consumer banking loan portfolio as of September 30, 2017 and December 31, 2016, as well as net charge-offs for the three and nine months ended September 30, 2017 and 2016.

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Table 4.6: Consumer Banking Net Charge-Offs and Nonperforming Loans

	Three Months Ended September 30,				Nine Months Ended September 30,			
	2017		2016		2017		2016	
(Dollars in millions)	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]	Amount	Rate[1]
Net charge-offs:								
Auto	$257	1.96 %	$210	1.85 %	$671	1.77 %	$508	1.55 %
Home loan[2]	1	0.02	1	0.03	5	0.03	9	0.05
Retail banking	18	2.10	16	1.75	50	1.91	39	1.46
Total consumer banking[2]	$276	1.47	$227	1.26	$726	1.30	$556	1.04

	September 30, 2017		December 31, 2016	
(Dollars in millions)	Amount	Rate[3]	Amount	Rate[3]
Nonperforming loans:				
Auto	$346	0.65 %	$223	0.47 %
Home loan[4]	158	0.84	273	1.26
Retail banking	33	0.97	31	0.86
Total consumer banking[4]	$537	0.71	$527	0.72

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(1) The net charge-off rate is calculated by dividing annualized net charge-offs by average balance of loans held for investment for the period for each loan category.

(2) Excluding the impact of PCI loans, the net charge-off rates for our home loan and total consumer banking portfolios were 0.06% and 1.74%, respectively, for the three months ended September 30, 2017, compared to 0.08% and 1.62%, respectively, for the three months ended September 30, 2016; and 0.08% and 1.57%, respectively, for the nine months ended September 30, 2017, compared to 0.18% and 1.37%, respectively, for the nine months ended September 30, 2016.

(3) Nonperforming loan rates are calculated based on nonperforming loans for each category divided by period-end total loans held for investment for each respective category.

(4) Excluding the impact of PCI loans, the nonperforming loan rates for our home loan and total consumer banking portfolios were 2.13% and 0.84%, respectively, as of September 30, 2017, compared to 3.81% and 0.90%, respectively, as of December 31, 2016.

Home Loan

Our home loan portfolio consists of both first-lien and second-lien residential mortgage loans. In evaluating the credit quality and risk of our home loan portfolio, we monitor a variety of mortgage loan characteristics that may affect the default experience on this loan portfolio, such as vintage, geographic concentrations, lien priority and product type. Certain loan concentrations have experienced higher delinquency rates as a result of the significant decline in home prices after the peak in 2006 and subsequent rise in unemployment. These loan concentrations include loans originated between 2006 and 2008 in an environment of decreasing home sales, broadly declining home prices and more relaxed underwriting standards.

The following table presents the distribution of our home loan portfolio as of September 30, 2017 and December 31, 2016, based on selected key risk characteristics.

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Table 4.7: Home Loan Risk Profile by Vintage, Geography, Lien Priority and Interest Rate Type

	September 30, 2017					
	Loans		PCI Loans(1)		Total Home Loans	
(Dollars in millions)	Amount	% of Total(2)	Amount	% of Total(2)	Amount	% of Total(2)
Origination year:(3)						
< = 2008	$1,689	9.0 %	$7,808	41.5 %	$9,497	50.5 %
2009	65	0.3	833	4.5	898	4.8
2010	66	0.4	1,172	6.2	1,238	6.6
2011	120	0.6	1,272	6.8	1,392	7.4
2012	727	3.9	192	1.0	919	4.9
2013	402	2.1	48	0.3	450	2.4
2014	491	2.6	28	0.1	519	2.7
2015	936	5.0	28	0.1	964	5.1
2016	1,647	8.7	23	0.1	1,670	8.8
2017	1,247	6.7	26	0.1	1,273	6.8
Total	$7,390	39.3 %	$11,430	60.7 %	$18,820	100.0%
Geographic concentration:(4)						
California	$999	5.3 %	$3,116	16.6 %	$4,115	21.9 %
New York	1,400	7.4	585	3.1	1,985	10.5
Maryland	610	3.2	677	3.6	1,287	6.8
Virginia	538	2.9	564	3.0	1,102	5.9
Illinois	154	0.8	899	4.8	1,053	5.6
New Jersey	391	2.1	609	3.2	1,000	5.3
Texas	804	4.3	79	0.4	883	4.7
Louisiana	848	4.5	19	0.1	867	4.6
Florida	184	1.0	618	3.3	802	4.3
Arizona	94	0.5	634	3.4	728	3.9
Other	1,368	7.3	3,630	19.2	4,998	26.5
Total	$7,390	39.3 %	$11,430	60.7 %	$18,820	100.0%
Lien type:						
1st lien	$6,414	34.1 %	$11,193	59.5 %	$17,607	93.6 %
2nd lien	976	5.2	237	1.2	1,213	6.4
Total	$7,390	39.3 %	$11,430	60.7 %	$18,820	100.0%
Interest rate type:						
Fixed rate	$3,725	19.8 %	$1,653	8.8 %	$5,378	28.6 %
Adjustable rate	3,665	19.5	9,777	51.9	13,442	71.4
Total	$7,390	39.3 %	$11,430	60.7 %	$18,820	100.0%

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	December 31, 2016					
	Loans		PCI Loans[1]		Total Home Loans	
(Dollars in millions)	Amount	% of Total[2]	Amount	% of Total[2]	Amount	% of Total[2]
Origination year:[3]						
< = 2008	$2,166	10.0 %	$9,684	44.9 %	$11,850	54.9 %
2009	80	0.4	1,088	5.0	1,168	5.4
2010	82	0.4	1,562	7.2	1,644	7.6
2011	139	0.6	1,683	7.8	1,822	8.4
2012	969	4.5	268	1.2	1,237	5.7
2013	465	2.2	59	0.2	524	2.4
2014	557	2.6	31	0.2	588	2.8
2015	1,024	4.7	30	0.2	1,054	4.9
2016	1,674	7.8	23	0.1	1,697	7.9
Total	$7,156	33.2 %	$14,428	66.8 %	$21,584	100.0%
Geographic concentration:[4]						
California	$976	4.5 %	$4,017	18.6 %	$4,993	23.1 %
New York	1,343	6.2	693	3.2	2,036	9.4
Maryland	585	2.7	824	3.9	1,409	6.6
Illinois	108	0.5	1,110	5.1	1,218	5.6
Virginia	490	2.3	714	3.3	1,204	5.6
New Jersey	379	1.8	733	3.4	1,112	5.2
Louisiana	962	4.5	23	0.1	985	4.6
Florida	159	0.7	772	3.6	931	4.3
Arizona	89	0.4	799	3.7	888	4.1
Texas	725	3.4	98	0.4	823	3.8
Other	1,340	6.2	4,645	21.5	5,985	27.7
Total	$7,156	33.2 %	$14,428	66.8 %	$21,584	100.0%
Lien type:						
1st lien	$6,182	28.7 %	$14,159	65.5 %	$20,341	94.2 %
2nd lien	974	4.5	269	1.3	1,243	5.8
Total	$7,156	33.2 %	$14,428	66.8 %	$21,584	100.0%
Interest rate type:						
Fixed rate	$3,394	15.8 %	$1,822	8.4 %	$5,216	24.2 %
Adjustable rate	3,762	17.4	12,606	58.4	16,368	75.8
Total	$7,156	33.2 %	$14,428	66.8 %	$21,584	100.0%

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(1) The PCI loan balances with an origination date in the years subsequent to 2012 represent refinancing of previously acquired home loans.

(2) Percentages within each risk category are calculated based on period-end amounts.

(3) Modified loans are reported in the origination year of the initial borrowing.

(4) States listed represent those that have the highest individual concentration of home loans.

Our recorded investment in home loans that are in process of foreclosure was $310 million and $382 million as of September 30, 2017 and December 31, 2016, respectively. We commence the foreclosure process on home loans when a borrower becomes at least 120 days delinquent in accordance with Consumer Financial Protection Bureau regulations. Foreclosure procedures and timelines vary according to state laws. As of September 30, 2017 and December 31, 2016, the carrying value of the foreclosed residential real estate properties we hold and report as other assets on our consolidated balance sheets totaled $47 million and $69 million, respectively.

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Commercial Banking

We evaluate the credit risk of commercial loans using a dual risk rating system. We assign internal risk ratings to loans based on relevant information about the ability of the borrowers to repay their debt. In determining the risk rating of a particular loan, some of the factors considered are the borrower's current financial condition, historical and projected future credit performance, prospects for support from financially responsible guarantors, the estimated realizable value of any collateral and current economic trends. The scale based on our internal risk rating system is as follows:

- Noncriticized: Loans that have not been designated as criticized, frequently referred to as "pass" loans.
- Criticized performing: Loans in which the financial condition of the obligor is stressed, affecting earnings, cash flows or collateral values. The borrower currently has adequate capacity to meet near-term obligations; however, the stress, left unabated, may result in deterioration of the repayment prospects at some future date.
- Criticized nonperforming: Loans that are not adequately protected by the current net worth and paying capacity of the obligor or the collateral pledged, if any. Loans classified as criticized nonperforming have a well-defined weakness, or weaknesses, which jeopardize the full repayment of the debt. These loans are characterized by the distinct possibility that we will sustain a credit loss if the deficiencies are not corrected and are generally placed on nonaccrual status.

We use our internal risk rating system for regulatory reporting, determining the frequency of credit exposure reviews, and evaluating and determining the allowance for loan and lease losses for commercial loans. Loans of $1 million or more that are designated as criticized performing and criticized nonperforming are reviewed quarterly by management to determine if they are appropriately classified/rated and whether any impairment exists. Noncriticized loans greater than $1 million are specifically reviewed, at least annually, to determine the appropriate risk rating. In addition, we evaluate the risk rating during the renewal process of any loan or if a loan becomes past due.

The following table presents the geographic distribution and internal risk ratings of our commercial loan portfolio as of September 30, 2017 and December 31, 2016.

Table 4.8: Commercial Banking Risk Profile by Geographic Region and Internal Risk Rating

	September 30, 2017							
(Dollars in millions)	Commercial and Multifamily Real Estate	% of Total(1)	Commercial and Industrial	% of Total(1)	Small-Ticket Commercial Real Estate	% of Total(1)	Total Commercial Banking	% of Total(1)
Geographic concentration:(2)								
Northeast	$16,302	58.4 %	$ 8,498	21.6 %	$ 259	61.7 %	$ 25,059	37.1 %
Mid-Atlantic	3,132	11.2	3,838	9.8	15	3.6	6,985	10.3
South	3,692	13.2	14,991	38.1	27	6.4	18,710	27.6
Other	4,818	17.2	11,979	30.5	119	28.3	16,916	25.0
Total	$27,944	100.0%	$ 39,306	100.0%	$ 420	100.0%	$ 67,670	100.0%
Internal risk rating:(3)								
Noncriticized	$27,369	98.0 %	$ 35,721	90.9 %	$ 411	97.8 %	$ 63,501	93.8 %
Criticized performing	486	1.7	2,390	6.1	2	0.5	2,878	4.3
Criticized nonperforming	64	0.2	717	1.8	7	1.7	788	1.2
PCI loans	25	0.1	478	1.2	0	0.0	503	0.7
Total	$27,944	100.0%	$ 39,306	100.0%	$ 420	100.0%	$ 67,670	100.0%

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(Dollars in millions)	December 31, 2016 Commercial and Multifamily Real Estate	% of Total[1]	Commercial and Industrial	% of Total[1]	Small-Ticket Commercial Real Estate	% of Total[1]	Total Commercial Banking	% of Total[1]
Geographic concentration:[2]								
Northeast	$15,714	59.0 %	$ 9,628	24.2 %	$ 298	61.7 %	$ 25,640	38.3 %
Mid-Atlantic	3,024	11.4	3,450	8.7	16	3.3	6,490	9.7
South	4,032	15.2	15,193	38.1	34	7.0	19,259	28.8
Other	3,839	14.4	11,553	29.0	135	28.0	15,527	23.2
Total	$26,609	100.0%	$ 39,824	100.0%	$ 483	100.0%	$ 66,916	100.0%
Internal risk rating:[3]								
Noncriticized	$26,309	98.9 %	$ 36,046	90.5 %	$ 473	97.9 %	$ 62,828	93.9 %
Criticized performing	242	0.9	2,205	5.5	6	1.3	2,453	3.7
Criticized nonperforming	30	0.1	988	2.5	4	0.8	1,022	1.5
PCI loans	28	0.1	585	1.5	0	0.0	613	0.9
Total	$26,609	100.0%	$ 39,824	100.0%	$ 483	100.0%	$ 66,916	100.0%

(1) Percentages calculated based on total loans held for investment in each respective loan category using period-end amounts.

(2) Geographic concentration is generally determined by the location of the borrower's business or the location of the collateral associated with the loan. Northeast consists of CT, MA, ME, NH, NJ, NY, PA and VT. Mid-Atlantic consists of DC, DE, MD, VA and WV. South consists of AL, AR, FL, GA, KY, LA, MO, MS, NC, SC, TN and TX.

(3) Criticized exposures correspond to the "Special Mention," "Substandard" and "Doubtful" asset categories defined by banking regulatory authorities.

Impaired Loans

The following table presents information about our impaired loans, excluding PCI loans, which are reported separately as of September 30, 2017, and December 31, 2016, and for the three and nine months ended September 30, 2017 and 2016.

Table 4.9: Impaired Loans[1]

(Dollars in millions)	September 30, 2017 With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
Credit Card:						
Domestic credit card	$612	$ 0	$ 612	$ 207	$ 405	$ 598
International card businesses	165	0	165	81	84	160
Total credit card[2]	777	0	777	288	489	758
Consumer Banking:						
Auto[3]	353	134	487	32	455	738
Home loan	190	36	226	15	211	285
Retail banking	50	12	62	8	54	66
Total consumer banking	593	182	775	55	720	1,089
Commercial Banking:						

Commercial and multifamily real estate	142	25	167	10	157	168
Commercial and industrial	893	247	1,140	79	1,061	1,701
Total commercial lending	1,035	272	1,307	89	1,218	1,869
Small-ticket commercial real estate	7	0	7	0	7	9
Total commercial banking	1,042	272	1,314	89	1,225	1,878
Total	$2,412	$ 454	$ 2,866	$ 432	$ 2,434	$ 3,725

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(Dollars in millions)	December 31, 2016 With an Allowance	Without an Allowance	Total Recorded Investment	Related Allowance	Net Recorded Investment	Unpaid Principal Balance
Credit Card:						
Domestic credit card	$581	$ 0	$ 581	$ 174	$ 407	$ 566
International card businesses	134	0	134	65	69	129
Total credit card[2]	715	0	715	239	476	695
Consumer Banking:						
Auto[3]	316	207	523	24	499	807
Home loan	241	117	358	19	339	464
Retail banking	52	10	62	14	48	65
Total consumer banking	609	334	943	57	886	1,336
Commercial Banking:						
Commercial and multifamily real estate	83	29	112	7	105	112
Commercial and industrial	1,249	144	1,393	162	1,231	1,444
Total commercial lending	1,332	173	1,505	169	1,336	1,556
Small-ticket commercial real estate	4	0	4	0	4	4
Total commercial banking	1,336	173	1,509	169	1,340	1,560
Total	$2,660	$ 507	$ 3,167	$ 465	$ 2,702	$ 3,591

(Dollars in millions)	Three Months Ended September 30, 2017 Average Recorded Investment	Interest Income Recognized	Nine Months Ended September 30, 2017 Average Recorded Investment	Interest Income Recognized
Credit Card:				
Domestic credit card	$ 601	$ 16	$593	$ 47
International card businesses	160	3	150	8
Total credit card[2]	761	19	743	55
Consumer Banking:				
Auto[3]	485	13	498	39
Home loan	288	2	316	4
Retail banking	60	0	59	1
Total consumer banking	833	15	873	44
Commercial Banking:				
Commercial and multifamily real estate	152	1	132	3
Commercial and industrial	1,130	5	1,220	13
Total commercial lending	1,282	6	1,352	16
Small-ticket commercial real estate	8	0	7	0
Total commercial banking	1,290	6	1,359	16
Total	$ 2,884	$ 40	$2,975	$ 115

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(Dollars in millions)	Three Months Ended September 30, 2016 Average Recorded Investment	Three Months Ended September 30, 2016 Interest Income Recognized	Nine Months Ended September 30, 2016 Average Recorded Investment	Nine Months Ended September 30, 2016 Interest Income Recognized
Credit Card:				
Domestic credit card	$ 528	$ 15	$ 530	$ 43
International card businesses	135	3	132	8
Total credit card[2]	663	18	662	51
Consumer Banking:				
Auto[3]	498	21	495	64
Home loan	358	2	362	4
Retail banking	60	0	62	1
Total consumer banking	916	23	919	69
Commercial Banking:				
Commercial and multifamily real estate	128	0	111	2
Commercial and industrial	1,277	4	1,171	9
Total commercial lending	1,405	4	1,282	11
Small-ticket commercial real estate	8	0	8	0
Total commercial banking	1,413	4	1,290	11
Total	$ 2,992	$ 45	$ 2,871	$ 131

(1) Impaired loans include loans modified in troubled debt restructurings ("TDRs"), all nonperforming commercial loans and nonperforming home loans with a specific impairment. Impaired loans without an allowance generally represent loans that have been charged down to the fair value of the underlying collateral for which we believe no additional losses have been incurred, or where the fair value of the underlying collateral meets or exceeds the loan's amortized cost.

(2) The period-end and average recorded investments of credit card loans include finance charges and fees.

(3) Although certain assets from loan recovery inventory are not reported in our loans held for investment, they are included as impaired loans above since they are reported as TDRs.

The total recorded investment of loans modified in TDRs represents $2.4 billion and $2.5 billion of the impaired loans presented above as of September 30, 2017 and December 31, 2016, respectively. TDRs classified as performing in our credit card and consumer banking loan portfolios totaled $1.2 billion and $1.1 billion as of September 30, 2017 and December 31, 2016, respectively. TDRs classified as performing in our commercial banking loan portfolio totaled $526 million and $487 million as of September 30, 2017 and December 31, 2016, respectively. Commitments to lend additional funds on loans modified in TDRs totaled $243 million and $208 million as of September 30, 2017 and December 31, 2016, respectively.

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As part of our loan modification programs to borrowers experiencing financial difficulty, we may provide multiple concessions to minimize our economic loss and improve long-term loan performance and collectability. The following tables present the major modification types, recorded investment amounts and financial effects of loans modified in TDRs during the three and nine months ended September 30, 2017 and 2016.

Table 4.10: Troubled Debt Restructurings

		Three Months Ended September 30, 2017					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified(1)(2)	% of TDR Activity(3)(4)	Average Rate Reduction(5)	% of TDR Activity(4)(6)	Average Term Extension (Months)(7)	% of TDR Activity(4)(8)	Gross Balance Reduction(9)
Credit Card:							
Domestic credit card	$ 107	100%	14.51 %	0 %	0	0 %	$ 0
International card businesses	41	100	26.71	0	0	0	0
Total credit card	148	100	17.85	0	0	0	0
Consumer Banking:							
Auto	104	35	3.78	99	5	0	0
Home loan	3	19	1.35	53	292	0	0
Retail banking	7	13	9.30	82	10	0	0
Total consumer banking	114	33	3.88	97	9	0	0
Commercial Banking:							
Commercial and multifamily real estate	3	0	0.00	100	6	0	0
Commercial and industrial	202	24	0.24	96	18	0	0
Total commercial lending	205	24	0.24	96	18	0	0
Small-ticket commercial real estate	1	0	0.00	12	0	0	0
Total commercial banking	206	24	0.24	96	18	0	0
Total	$ 468	50	11.91	66	15	0	$ 0

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		Nine Months Ended September 30, 2017					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[(1)(2)]	% of TDR Activity[(3)(4)]	Average Rate Reduction[(5)]	% of TDR Activity[(4)(6)]	Average Term Extension (Months)[(7)]	% of TDR Activity[(4)(8)]	Gross Balance Reduction[(9)]
Credit Card:							
Domestic credit card	$ 291	100 %	14.25 %	0 %	0	0 %	$ 0
International card businesses	124	100	26.46	0	0	0	0
Total credit card	415	100	17.90	0	0	0	0
Consumer Banking:							
Auto	240	44	3.83	96	6	3	7
Home loan	17	49	2.44	79	234	2	0
Retail banking	13	21	5.56	73	10	0	0
Total consumer banking	270	44	3.77	94	18	3	7
Commercial Banking:							
Commercial and multifamily real estate	29	7	0.02	26	5	0	0
Commercial and industrial	483	15	0.81	59	18	0	0
Total commercial lending	512	15	0.79	57	18	0	0
Small-ticket commercial real estate	2	0	0.00	5	0	0	0
Total commercial banking	514	15	0.79	57	18	0	0
Total	$ 1,199	51	13.04	45	18	0	$ 7

		Three Months Ended September 30, 2016					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[(1)(2)]	% of TDR Activity[(3)(4)]	Average Rate Reduction[(5)]	% of TDR Activity[(4)(6)]	Average Term Extension (Months)[(7)]	% of TDR Activity[(4)(8)]	Gross Balance Reduction[(9)]
Credit Card:							
Domestic credit card	$ 88	100 %	13.12 %	0 %	0	0 %	$ 0
International card businesses	35	100	25.91	0	0	0	0
Total credit card	123	100	16.69	0	0	0	0
Consumer Banking:							
Auto	91	47	3.52	75	8	24	21
Home loan	13	71	2.18	90	241	2	0
Retail banking	9	11	10.44	61	9	0	0
Total consumer banking	113	47	3.41	75	38	20	21
Commercial Banking:							
Commercial and multifamily real estate	13	0	0.00	0	0	97	3
Commercial and industrial	257	1	0.15	49	10	19	26
Total commercial lending	270	1	0.15	47	10	23	29
Small-ticket commercial real estate	1	0	0.00	0	0	0	0
Total commercial banking	271	1	0.15	47	10	23	29
Total	$ 507	35	12.55	42	21	17	$ 50

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		Nine Months Ended September 30, 2016					
		Reduced Interest Rate		Term Extension		Balance Reduction	
(Dollars in millions)	Total Loans Modified[1][2]	% of TDR Activity[3][4]	Average Rate Reduction[5]	% of TDR Activity[4][6]	Average Term Extension (Months)[7]	% of TDR Activity[4][8]	Gross Balance Reduction[9]
Credit Card:							
Domestic credit card	$ 212	100%	12.95 %	0 %	0	0 %	$ 0
International card businesses	104	100	25.86	0	0	0	0
Total credit card	316	100	17.18	0	0	0	0
Consumer Banking:							
Auto	254	45	3.75	74	7	25	57
Home loan	38	62	2.37	86	247	2	0
Retail banking	16	23	7.90	65	9	11	1
Total consumer banking	308	46	3.62	75	41	22	58
Commercial Banking:							
Commercial and multifamily real estate	38	0	0.00	67	6	32	3
Commercial and industrial	558	6	0.09	54	17	9	26
Total commercial lending	596	5	0.09	55	16	10	29
Small-ticket commercial real estate	1	0	0.00	0	0	0	0
Total commercial banking	597	5	0.09	55	16	10	29
Total	$ 1,221	40	12.17	46	26	11	$ 87

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(1) Represents the recorded investment of total loans modified in TDRs at the end of the quarter in which they were modified.

(2) We present the modification types utilized most prevalently across our loan portfolios. As not every modification type is included in the table above, the total percentage of TDR activity may not add up to 100%. Some loans may receive more than one type of concession as part of the modification.

(3) Represents percentage of loans modified in TDRs during the period that were granted a reduced interest rate.

(4) Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

(5) Represents weighted average interest rate reduction for those loans that received an interest rate concession.

(6) Represents percentage of loans modified in TDRs during the period that were granted a maturity date extension.

(7) Represents weighted average change in maturity date for those loans that received a maturity date extension.

(8) Represents percentage of loans modified in TDRs during the period that were granted forgiveness or forbearance of a portion of their balance.

(9) Represents the gross balance forgiven. For loans modified in bankruptcy, the gross balance reduction represents collateral value write-downs associated with the discharge of the borrower's obligations.

TDR—Subsequent Defaults of Completed TDR Modifications

The following table presents the type, number and recorded investment amount of loans modified in TDRs that experienced a default during the period and had completed a modification event in the twelve months prior to the default. A default occurs if the loan is either 90 days or more delinquent, has been charged off as of the end of the period presented or has been reclassified from accrual to nonaccrual status.

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Table 4.11: TDR—Subsequent Defaults

	Three Months Ended September 30, 2017		Nine Months Ended September 30, 2017	
(Dollars in millions)	Number of Contracts	Amount	Number of Contracts	Amount
Credit Card:				
Domestic credit card	13,528	$ 28	39,555	$ 79
International card businesses[1]	13,015	24	38,201	67
Total credit card	26,543	52	77,756	146
Consumer Banking:				
Auto	2,288	26	7,000	81
Home loan	5	0	24	6
Retail banking	9	1	29	4
Total consumer banking	2,302	27	7,053	91
Commercial Banking:				
Commercial and multifamily real estate	0	0	0	0
Commercial and industrial	141	103	176	211
Total commercial lending	141	103	176	211
Small-ticket commercial real estate	0	0	2	1
Total commercial banking	141	103	178	212
Total	28,986	$ 182	84,987	$ 449

	Three Months Ended September 30, 2016		Nine Months Ended September 30, 2016	
(Dollars in millions)	Number of Contracts	Amount	Number of Contracts	Amount
Credit Card:				
Domestic credit card	9,138	$ 15	29,963	$ 49
International card businesses[1]	10,670	20	29,455	61
Total credit card	19,808	35	59,418	110
Consumer Banking:				
Auto	2,096	24	6,009	67
Home loan	17	2	40	5
Retail banking	12	4	37	7
Total consumer banking	2,125	30	6,086	79
Commercial Banking:				
Commercial and multifamily real estate	1	2	1	2
Commercial and industrial	22	108	42	145
Total commercial lending	23	110	43	147
Small-ticket commercial real estate	1	0	3	0
Total commercial banking	24	110	46	147
Total	21,957	$ 175	65,550	$ 336

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(1) In the U.K., regulators require the acceptance of payment plan proposals in which the modified payments may be less than the contractual minimum amount. As a result, loans entering long-term TDR payment programs in the U.K. typically continue to age and ultimately charge off even when fully in compliance with the TDR program terms.

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PCI Loans

Outstanding Balance and Carrying Value of PCI Loans

The table below presents the outstanding balance and the carrying value of PCI loans as of September 30, 2017 and December 31, 2016. The table also displays loans which would have otherwise been considered impaired at acquisition based on our applicable accounting policies. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for information related to our accounting policies for impaired loans.

Table 4.12: PCI Loans

	September 30, 2017			December 31, 2016		
(Dollars in millions)	Total PCI Loans	Impaired Loans	Non-Impaired Loans	Total PCI Loans	Impaired Loans	Non-Impaired Loans
Outstanding balance	$13,255	$ 2,827	$ 10,428	$16,506	$ 3,272	$ 13,234
Carrying value[1]	11,981	1,966	10,015	15,074	2,263	12,811

[1] Includes $38 million and $31 million of allowance for loan and lease losses for these loans as of September 30, 2017 and December 31, 2016, respectively. We recorded a $7 million provision and a $9 million release for credit losses for the nine months ended September 30, 2017 and 2016, respectively, for PCI loans.

Changes in Accretable Yield

The following table presents changes in the accretable yield on PCI loans:

Table 4.13: Changes in Accretable Yield on PCI Loans

	Three Months Ended September 30, 2017			Nine Months Ended September 30, 2017		
(Dollars in millions)	Total PCI Loans	Impaired Loans	Non-Impaired Loans	Total PCI Loans	Impaired Loans	Non-Impaired Loans
Accretable yield, beginning of period	$2,691	$ 992	$ 1,699	$3,177	$1,064	$ 2,113
Accretion recognized in earnings	(144)	(54)	(90)	(465)	(164)	(301)
Reclassifications from/(to) nonaccretable differences[1]	2	0	2	10	(10)	20
Changes in accretable yield for non-credit related changes in expected cash flows[2]	(124)	(32)	(92)	(297)	16	(313)
Accretable yield, end of period	$2,425	$ 906	$ 1,519	$2,425	$906	$ 1,519

[1] Represents changes in accretable yield for those loans in pools that are driven primarily by credit performance.

[2] Represents changes in accretable yield for those loans in pools that are driven primarily by actual prepayments and changes in estimated prepayments.

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NOTE 5—ALLOWANCE FOR LOAN AND LEASE LOSSES AND RESERVE FOR UNFUNDED LENDING COMMITMENTS

Our allowance for loan and lease losses represents management's best estimate of incurred loan and lease losses inherent in our loans held for investment portfolio as of each balance sheet date. In addition to the allowance for loan and lease losses, we also estimate probable losses related to unfunded lending commitments, such as letters of credit, financial guarantees and binding unfunded loan commitments. The provision for losses on unfunded lending commitments is included in the provision for credit losses in our consolidated statements of income and the related reserve for unfunded lending commitments is included in other liabilities on our consolidated balance sheets. See "Note 1—Summary of Significant Accounting Policies" in our 2016 Form 10-K for further discussion on the methodology and policy for determining our allowance for loan and lease losses for each of our loan portfolio segments, as well as information on our reserve for unfunded lending commitments.

Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Activity

The table below summarizes changes in the allowance for loan and lease losses and reserve for unfunded lending commitments by portfolio segment for the three and nine months ended September 30, 2017 and 2016.

Table 5.1: Allowance for Loan and Lease Losses and Reserve for Unfunded Lending Commitments Activity

	Three Months Ended September 30, 2017				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:					
Balance as of June 30, 2017	$5,210	$ 1,199	$ 758	$ 3	$7,170
Charge-offs	(1,471)	(435)	(168)	(36)	(2,110)
Recoveries	316	159	5	24	504
Net charge-offs	(1,155)	(276)	(163)	(12)	(1,606)
Provision for loan and lease losses	1,466	292	75	11	1,844
Allowance build (release) for loan and lease losses	311	16	(88)	(1)	238
Other changes[2]	13	(2)	(1)	0	10
Balance as of September 30, 2017	5,534	1,213	669	2	7,418
Reserve for unfunded lending commitments:					
Balance as of June 30, 2017	0	7	132	0	139
Provision (benefit) for losses on unfunded lending commitments	0	1	(12)	0	(11)
Balance as of September 30, 2017	0	8	120	0	128
Combined allowance and reserve as of September 30, 2017	$5,534	$ 1,221	$ 789	$ 2	$7,546

	Nine Months Ended September 30, 2017				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:					
Balance as of December 31, 2016	$4,606	$ 1,102	$ 793	$ 2	$6,503
Charge-offs	(4,644)	(1,189)	(334)	(36)	(6,203)
Recoveries	962	463	12	32	1,469
Net charge-offs	(3,682)	(726)	(322)	(4)	(4,734)
Provision for loan and lease losses	4,580	839	210	4	5,633
Allowance build (release) for loan and lease losses	898	113	(112)	0	899
Other changes[2]	30	(2)	(12)	0	16
Balance as of September 30, 2017	5,534	1,213	669	2	7,418
Reserve for unfunded lending commitments:					
Balance as of December 31, 2016	0	7	129	0	136

Provision (benefit) for losses on unfunded lending commitments	0	1	(9)	0	(8)
Balance as of September 30, 2017	0	8	120	0	128
Combined allowance and reserve as of September 30, 2017	$5,534	$ 1,221	$ 789	$ 2	$7,546

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CAPITAL ONE FINANCIAL CORPORATION
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

	Three Months Ended September 30, 2016				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:					
Balance as of June 30, 2016	$4,086	$ 972	$ 821	$ 2	$5,881
Charge-offs	(1,171)	(323)	(112)	0	(1,606)
Recoveries	265	96	4	1	366
Net charge-offs	(906)	(227)	(108)	1	(1,240)
Provision (benefit) for loan and lease losses	1,272	258	96	(1)	1,625
Allowance build (release) for loan and lease losses	366	31	(12)	0	385
Other changes[2]	(7)	0	(1)	0	(8)
Balance as of September 30, 2016	4,445	1,003	808	2	6,258
Reserve for unfunded lending commitments:					
Balance as of June 30, 2016	0	8	161	0	169
Provision (benefit) for losses on unfunded lending commitments	0	(2)	(35)	0	(37)
Balance as of September 30, 2016	0	6	126	0	132
Combined allowance and reserve as of September 30, 2016	$4,445	$ 1,009	$ 934	$ 2	$6,390

	Nine Months Ended September 30, 2016				
(Dollars in millions)	Credit Card	Consumer Banking	Commercial Banking	Other[1]	Total
Allowance for loan and lease losses:					
Balance as of December 31, 2015	$3,654	$ 868	$ 604	$ 4	$5,130
Charge-offs	(3,608)	(862)	(224)	(2)	(4,696)
Recoveries	803	306	10	4	1,123
Net charge-offs	(2,805)	(556)	(214)	2	