

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

FORM 10-Q

QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

For the quarterly period ended September 30, 2021

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. 001-13300

CAPITAL ONE FINANCIAL CORPORATION

(Exact name of registrant as specified in its charter)

Delaware  
(State or other jurisdiction of incorporation or organization)  
1680 Capital One Drive,  
McLean, Virginia  
(Address of principal executive offices)

54-1719854  
(I.R.S. Employer Identification No.)  
22102  
(Zip Code)

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

(Not Applicable)

(Former name, former address and former fiscal year, if changed since last report)

Securities registered pursuant to Section 12(b) of the Act:

| Title of Each Class  | Trading Symbol(s) | Name of Each Exchange on Which Registered |
|--|-------------------|---|
| Common Stock (par value \$.01 per share)   | COF               | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series G | COF PRG           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series H | COF PRH           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series I | COF PRI           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series J | COF PRJ           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series K | COF PRK           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series L | COF PRL           | New York Stock Exchange                   |
| Depository Shares, Each Representing a 1/40th Interest in a Share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series N | COF PRN           | New York Stock Exchange                   |
| 0.800% Senior Notes Due 2024   | COF24             | New York Stock Exchange                   |
| 1.650% Senior Notes Due 2029   | COF29             | New York Stock Exchange                   |

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  No

Indicate by check mark whether the registrant has submitted electronically every Interactive Data File required to be submitted 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 such files). Yes  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 | <input checked="" type="checkbox"/> | Accelerated filer         | <input type="checkbox"/> |
| Non-accelerated filer   | <input type="checkbox"/>            | Smaller reporting company | <input type="checkbox"/> |
|                         |                                     | Emerging growth company   | <input type="checkbox"/> |

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

As of October 29, 2021, there were 425,622,058 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”)

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*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”). All statements that address operating performance, events or developments that we expect or anticipate will occur in the future, including those relating to operating results and “Note 13—Commitments, Contingencies, Guarantees and Others” as well as the potential impacts of the COVID-19 pandemic described in “MD&A—Introduction—Coronavirus Disease 2019 (COVID-19) Pandemic” are forward-looking statements. Our actual results may differ materially from those included in these forward-looking statements due to a variety of factors including, but not limited to, those described in “Part I—Item 1A. Risk Factors” in our 2020 Annual Report on Form 10-K (“2020 Form 10-K”) and “Part II—Item 1A. Risk Factors” in this Report. Unless otherwise specified, references to notes to our consolidated financial statements refer to the notes to our consolidated financial statements as of September 30, 2021 included in this Report.*

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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 2020 Form 10-K.

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#### INTRODUCTION

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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 digital channels, branches, Cafés and other distribution channels.

As of September 30, 2021, our principal subsidiaries included:

- Capital One Bank (USA), National Association (“COBNA”), which offers credit card products along with other lending products and consumer services; 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, small business and commercial customers net of funding costs associated with interest on deposits, long-term debt and other borrowings. We also earn non-interest income which primarily consists of interchange income, net of reward expenses, service charges and other customer-related fees. Our 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 primarily based on the products and services provided or the types of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into or managed as a part of our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio, asset/liability management by our centralized Corporate Treasury group and residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments, 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 deposit gathering and lending activities for consumers and small businesses, and national auto lending.
- *Commercial Banking*: Consists of our lending, deposit gathering, capital markets and treasury management services to commercial real estate and commercial and industrial customers. Our commercial and industrial customers typically include companies with annual revenues between \$20 million and \$2 billion.

### **Business Developments**

We regularly explore and evaluate opportunities to acquire financial services and products as well as 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 technology companies and related assets to improve our information technology infrastructure and to deliver on our digital strategy. We may issue equity or debt to fund our acquisitions. In addition, we regularly consider the potential disposition of certain assets, branches, partnership agreements or lines of business.

### **Coronavirus Disease 2019 (COVID-19) Pandemic**

The COVID-19 pandemic resulted in a global public-health crisis, disrupting economies and introducing significant volatility into financial markets. We transformed how we work in order to protect the well-being of our associates and our customers, and were able to continue to serve our customers, successfully manage critical functions, and keep our lines of business operating.

Since the start of the COVID-19 pandemic, a significant majority of our associates across our workforce have transitioned to working remotely, relying on our technology infrastructure and systems that have been designed for resilience and security. The majority of our associates continue to work remotely. In the future, we plan to adopt a hybrid work methodology that allows for in-office collaboration while still enabling associates to work remotely. We continue to monitor local conditions to ensure the safety of our associates.

For more information see “Part I—Item 1. Business—Overview—Coronavirus Disease 2019 (COVID-19) Pandemic” and “Part I—Item 1A. Risk Factors” in our 2020 Form 10-K along with “Part I—Item 2. MD&A—Introduction—Coronavirus Disease 2019 (COVID-19) Pandemic” and “Part I—Item 2. MD&A—Credit Risk Profile—COVID-19 Customer Assistance Programs and Loan Modifications” in our Quarterly Report on Form 10-Q for the period ended March 31, 2021.

## 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 2021 and 2020 and selected comparative balance sheet data as of September 30, 2021 and December 31, 2020. We also provide selected key metrics we use in evaluating our performance, including certain metrics that are computed using non-GAAP measures. We consider these metrics to be key financial measures that management uses in assessing our operating performance, capital adequacy and the level of returns generated. We believe these non-GAAP metrics provide useful insight to investors and users of our financial information as they provide an alternate measurement of our performance and assist in assessing our capital adequacy and the level of return generated.

**Table 1: Consolidated Financial Highlights**

| <i>(Dollars in millions, except per share data and as noted)</i>           | Three Months Ended September 30, |                 |           | Nine Months Ended September 30, |                |           |
|--|----------------------------------|-----------------|-----------|---------------------------------|----------------|-----------|
|  | 2021                             | 2020            | Change    | 2021                            | 2020           | Change    |
| <b>Income statement</b>  |                                  |                 |           |                                 |                |           |
| Net interest income  | \$ 6,156                         | \$ 5,555        | 11%       | \$ 17,721                       | \$ 17,040      | 4%        |
| Non-interest income  | 1,674                            | 1,826           | (8)       | 4,596                           | 4,146          | 11        |
| Total net revenue  | 7,830                            | 7,381           | 6         | 22,317                          | 21,186         | 5         |
| Provision (benefit) for credit losses                                      | (342)                            | 331             | **        | (2,325)                         | 10,000         | **        |
| Non-interest expense:  |                                  |                 |           |                                 |                |           |
| Marketing  | 751                              | 283             | 165       | 1,872                           | 1,047          | 79        |
| Operating expense  | 3,435                            | 3,265           | 5         | 10,020                          | 10,000         | —         |
| Total non-interest expense   | 4,186                            | 3,548           | 18        | 11,892                          | 11,047         | 8         |
| Income from continuing operations before income taxes                      | 3,986                            | 3,502           | 14        | 12,750                          | 139            | **        |
| Income tax provision (benefit)   | 882                              | 1,096           | (20)      | 2,782                           | (10)           | **        |
| Income from continuing operations, net of tax                              | 3,104                            | 2,406           | 29        | 9,968                           | 149            | **        |
| Loss from discontinued operations, net of tax                              | —                                | —               | —         | (3)                             | (1)            | **        |
| <b>Net income</b>  | <b>3,104</b>                     | <b>2,406</b>    | <b>29</b> | <b>9,965</b>                    | <b>148</b>     | <b>**</b> |
| Dividends and undistributed earnings allocated to participating securities | (26)                             | (20)            | 30        | (84)                            | (5)            | **        |
| Preferred stock dividends  | (79)                             | (67)            | 18        | (200)                           | (212)          | (6)       |
| Issuance cost for redeemed preferred stock                                 | (12)                             | —               | **        | (12)                            | (22)           | (45)      |
| <b>Net income (loss) available to common stockholders</b>                  | <b>\$ 2,987</b>                  | <b>\$ 2,319</b> | <b>29</b> | <b>\$ 9,669</b>                 | <b>\$ (91)</b> | <b>**</b> |
| <b>Common share statistics</b>   |                                  |                 |           |                                 |                |           |
| <b>Basic earnings per common share:</b>                                    |                                  |                 |           |                                 |                |           |
| Net income (loss) from continuing operations                               | \$ 6.81                          | \$ 5.07         | 34%       | \$ 21.53                        | \$ (0.20)      | **        |
| Loss from discontinued operations  | —                                | —               | —         | (0.01)                          | —              | **        |
| Net income (loss) per basic common share                                   | \$ 6.81                          | \$ 5.07         | 34        | \$ 21.52                        | \$ (0.20)      | **        |
| <b>Diluted earnings per common share:</b>                                  |                                  |                 |           |                                 |                |           |
| Net income (loss) from continuing operations                               | \$ 6.78                          | \$ 5.06         | 34%       | \$ 21.45                        | \$ (0.20)      | **        |
| Loss from discontinued operations  | —                                | —               | —         | (0.01)                          | —              | **        |
| Net income (loss) per diluted common share                                 | \$ 6.78                          | \$ 5.06         | 34        | \$ 21.44                        | \$ (0.20)      | **        |
| <b>Weighted-average common shares outstanding (in millions):</b>           |                                  |                 |           |                                 |                |           |
| Basic  | 438.8                            | 457.8           | (4)%      | 449.2                           | 457.4          | (2)%      |
| Diluted  | 440.5                            | 458.5           | (4)       | 450.9                           | 457.4          | (1)       |
| Common shares outstanding (period-end, in millions)                        | 430.4                            | 457.4           | (6)       | 430.4                           | 457.4          | (6)       |
| Dividends declared and paid per common share                               | \$ 1.20                          | \$ 0.10         | **        | \$ 2.00                         | \$ 0.90        | 122       |
| Tangible book value per common share (period-end) <sup>(1)</sup>           | 99.60                            | 83.67           | 19        | 99.60                           | 83.67          | 19        |

| <i>(Dollars in millions, except per share data and as noted)</i>          | Three Months Ended September 30, |            |          | Nine Months Ended September 30, |            |          |
|---|----------------------------------|------------|----------|---------------------------------|------------|----------|
|   | 2021                             | 2020       | Change   | 2021                            | 2020       | Change   |
| <b>Balance sheet (average balances)</b>                                   |                                  |            |          |                                 |            |          |
| Loans held for investment   | \$ 253,101                       | \$ 249,511 | 1%       | \$ 247,867                      | \$ 255,232 | (3)%     |
| Interest-earning assets   | 387,766                          | 391,451    | (1)      | 388,820                         | 375,041    | 4        |
| Total assets  | 424,506                          | 422,854    | —        | 423,457                         | 408,233    | 4        |
| Interest-bearing deposits   | 269,278                          | 276,339    | (3)      | 272,022                         | 259,631    | 5        |
| Total deposits  | 305,035                          | 305,516    | —        | 306,102                         | 286,242    | 7        |
| Borrowings  | 37,464                           | 44,161     | (15)     | 38,134                          | 48,577     | (21)     |
| Common equity   | 58,230                           | 51,995     | 12       | 56,972                          | 52,529     | 8        |
| Total stockholders' equity  | 64,682                           | 57,223     | 13       | 62,575                          | 57,802     | 8        |
| <b>Selected performance metrics</b>                                       |                                  |            |          |                                 |            |          |
| Purchase volume   | \$ 136,614                       | \$ 107,102 | 28 %     | \$ 377,623                      | \$ 297,171 | 27 %     |
| Total net revenue margin <sup>(2)</sup>                                   | 8.08 %                           | 7.54 %     | 54 bps   | 7.65 %                          | 7.53 %     | 12 bps   |
| Net interest margin   | 6.35                             | 5.68       | 67       | 6.08                            | 6.06       | 2        |
| Return on average assets <sup>(3)</sup>                                   | 2.92                             | 2.28       | 64       | 3.14                            | 0.05       | 309      |
| Return on average tangible assets <sup>(4)</sup>                          | 3.03                             | 2.36       | 67       | 3.25                            | 0.05       | 320      |
| Return on average common equity <sup>(5)</sup>                            | 20.52                            | 17.84      | 268      | 22.64                           | (0.23)     | 23 %     |
| Return on average tangible common equity <sup>(6)</sup>                   | 27.50                            | 24.98      | 252      | 30.57                           | (0.32)     | 31       |
| Equity-to-assets ratio <sup>(7)</sup>                                     | 15.24                            | 13.53      | 171      | 14.78                           | 14.16      | 62 bps   |
| Non-interest expense as a percentage of average loans held for investment | 6.62                             | 5.69       | 93       | 6.40                            | 5.77       | 63       |
| Efficiency ratio <sup>(8)</sup>   | 53.46                            | 48.07      | 5 %      | 53.29                           | 52.14      | 115      |
| Operating efficiency ratio <sup>(9)</sup>                                 | 43.87                            | 44.24      | (37)bps  | 44.90                           | 47.20      | (230)    |
| Effective income tax rate from continuing operations                      | 22.1                             | 31.3       | (9) %    | 21.8                            | (7.2)      | 29 %     |
| Net charge-offs   | \$ 426                           | \$ 1,073   | (60)     | \$ 1,707                        | \$ 4,369   | (61)     |
| Net charge-off rate   | 0.67 %                           | 1.72 %     | (105)bps | 0.92 %                          | 2.28 %     | (136)bps |

| <i>(Dollars in millions, except as noted)</i>                                       | September 30, 2021 | December 31, 2020 | Change   |
|---|--------------------|-------------------|----------|
| <b>Balance sheet (period-end)</b>   |                    |                   |          |
| Loans held for investment   | \$ 261,390         | \$ 251,624        | 4 %      |
| Interest-earning assets   | 387,208            | 388,917           | —        |
| Total assets  | 425,377            | 421,602           | 1        |
| Interest-bearing deposits   | 269,134            | 274,300           | (2)      |
| Total deposits  | 305,938            | 305,442           | —        |
| Borrowings  | 37,501             | 40,539            | (7)      |
| Common equity   | 57,632             | 55,356            | 4        |
| Total stockholders' equity  | 63,544             | 60,204            | 6        |
| <b>Credit quality metrics</b>   |                    |                   |          |
| Allowance for credit losses   | \$ 11,573          | \$ 15,564         | (26) %   |
| Allowance as a percentage of loans held for investment ("allowance coverage ratio") | 4.43 %             | 6.19 %            | (176)bps |
| 30+ day performing delinquency rate   | 1.97               | 2.41              | (44)     |
| 30+ day delinquency rate  | 2.13               | 2.61              | (48)     |
| <b>Capital ratios</b>   |                    |                   |          |
| Common equity Tier 1 capital <sup>(10)</sup>  | 13.8 %             | 13.7 %            | 10 bps   |
| Tier 1 capital <sup>(10)</sup>  | 15.7               | 15.3              | 40       |
| Total capital <sup>(10)</sup>   | 18.2               | 17.7              | 50       |
| Tier 1 leverage <sup>(10)</sup>   | 12.2               | 11.2              | 100      |
| Tangible common equity <sup>(11)</sup>  | 10.4               | 10.0              | 40       |
| Supplementary leverage <sup>(10)(12)</sup>  | 10.4               | 10.7              | (30)     |
| <b>Other</b>  |                    |                   |          |
| Employees (period end, in thousands)  | 50.8               | 52.0              | (2)      |

- 
- (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” for additional information on non-GAAP measures.
- (2) Total net revenue margin is calculated based on annualized total net revenue for the period divided by average interest-earning assets for the period.
- (3) Return on average assets is calculated based on annualized income from continuing operations, net of tax, for the period divided by average total assets for the period.
- (4) 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” for additional information on non-GAAP measures.
- (5) Return on average common equity is calculated based on annualized net income (loss) available to common stockholders less annualized income (loss) from discontinued operations, net of tax, 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.
- (6) Return on average tangible common equity (“TCE”) is a non-GAAP measure calculated based on annualized net income (loss) available to common stockholders less annualized income (loss) from discontinued operations, net of tax, for the period, divided by average tangible common equity. 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” for additional information on non-GAAP measures.
- (7) Equity-to-assets ratio is calculated based on average stockholders’ equity for the period divided by average total assets for the period.
- (8) Efficiency ratio is calculated based on total non-interest expense for the period divided by total net revenue for the period.
- (9) Operating efficiency ratio is calculated based on operating expense for the period divided by total net revenue for the period.
- (10) Capital ratios are calculated based on the Basel III Standardized Approach framework, see “MD&A—Capital Management” for additional information.
- (11) 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” for the calculation of this measure and reconciliation to the comparative U.S. GAAP measure.
- (12) The Company’s supplementary leverage ratio as of December 31, 2020 reflected the temporary exclusions of U.S Treasury securities and deposits at Federal Reserve Banks from the denominator of the supplementary leverage ratio. See “Part I—Item 1. Business—Supervision and Regulation—Capital and Liquidity Regulation” in our 2020 Form 10-K for additional details.
- \*\* Not meaningful.

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## EXECUTIVE SUMMARY AND BUSINESS OUTLOOK

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### Financial Highlights

We reported net income of \$3.1 billion (\$6.78 per diluted common share) on total revenue of \$7.8 billion and net income of \$10.0 billion (\$21.44 per diluted common share) on total net revenue of \$22.3 billion for the third quarter and first nine months of 2021. In comparison, we reported net income of \$2.4 billion (\$5.06 per diluted common share) on total net revenue of \$7.4 billion and net income of \$148 million (which after considering preferred stock dividends and other items equated to a net loss of \$0.20 per diluted common share) on total net revenue of \$21.2 billion for the third quarter and first nine months of 2020.

Our common equity Tier 1 capital ratio as calculated under the Basel III Standardized Approach was 13.8% and 13.7% as of September 30, 2021 and December 31, 2020, respectively. See “MD&A—Capital Management” for additional information.

On January 25, 2021, our Board of Directors authorized the repurchase of up to \$7.5 billion of shares of our common stock. We repurchased approximately \$2.7 billion of shares of our common stock during the third quarter of 2021 and \$4.9 billion during the first nine months of 2021. See “MD&A—Capital Management—Dividend Policy and Stock Purchases” for additional information.

Below are additional highlights of our performance in the third quarter and first nine months of 2021. These highlights are based on a comparison between the results of the third quarter and first nine months of 2021 and 2020, 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, 2021 compared to December 31, 2020. 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 \$698 million to \$3.1 billion in the third quarter of 2021 primarily driven by:

- lower provision resulting from an allowance release primarily due to strong credit performance; and
- higher net interest income primarily driven by higher margins and average loans outstanding in our credit card loan portfolio and higher average loans outstanding in our auto loan portfolio.

These drivers were partially offset by higher non-interest expense, primarily driven by increased marketing spend.

Our net income increased by \$9.8 billion to \$10.0 billion in the first nine months of 2021 primarily driven by:

- lower provision resulting from allowance releases in 2021 due to continued strong credit performance and an improved economic outlook, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic;
- higher net interest income driven by lower interest rates paid on interest-bearing deposits and higher average outstanding balances in our auto loan portfolio; and
- higher non-interest income primarily driven by higher net interchange fees due to an increase in purchase volume, partially offset by the absence of a gain on our equity investment in Snowflake Inc.

These drivers were partially offset by higher non-interest expense, primarily driven by increased marketing spend.

- *Loans Held for Investment:*

- Period-end loans held for investment increased by \$9.8 billion to \$261.4 billion as of September 30, 2021 from December 31, 2020 primarily driven by growth in our auto and commercial loan portfolios, partially offset by the transfer of a \$2.6 billion international card partnership portfolio to held for sale in the second quarter of 2021.
- Average loans held for investment increased by \$3.6 billion to \$253.1 billion in the third quarter of 2021 compared to the third quarter of 2020 primarily driven by growth in our auto loan portfolio, partially offset by the

transfer of a \$2.6 billion international card partnership portfolio to held for sale in the second quarter of 2021. Average loans held for investment decreased by \$7.4 billion to \$247.9 billion in the first nine months of 2021 compared to the first nine months of 2020 primarily driven by lower outstanding balances in Credit Card due to higher customer payments, partially offset by higher purchase volume as well as growth in our auto loan portfolio.

- *Net Charge-Off and Delinquency Metrics:* Our net charge-off rate decreased by 105 basis points (“bps”) to 0.67% in the third quarter of 2021 compared to the third quarter of 2020 and decreased by 136 basis points to 0.92% in the first nine months of 2021 compared to the first nine months of 2020, primarily driven by strong credit performance in Credit Card.

Our 30+ day delinquency rate decreased by 48 basis points to 2.13% as of September 30, 2021 from December 31, 2020 due to strong credit performance in our credit card and auto loan portfolios.

- *Allowance for Credit Losses:* Our allowance for credit losses decreased by \$4.0 billion to \$11.6 billion, and our allowance coverage ratio decreased by 176 basis points to 4.43% as of September 30, 2021 from December 31, 2020, driven by strong credit performance and improved economic outlook.

## **Business Outlook**

We discuss in this Report our expectations as of the time this Report was filed regarding our total company performance and the performance of our business segments based on market conditions, the regulatory environment and our business strategies. The statements contained in this Report are based on our current expectations regarding our outlook for our financial results and business strategies. Our expectations take into account, and should be read in conjunction with, our expectations regarding economic trends and analysis of our business as discussed in “Part I—Item 1. Business” and “Part II—Item 7. MD&A” in our 2020 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:

- 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.

The extent to which the COVID-19 pandemic ultimately impacts our business, results of operations, and financial condition will depend on future developments that are still uncertain and cannot be predicted, including the scope and duration of the COVID-19 pandemic and actions taken by governmental authorities and other third parties in response to the COVID-19 pandemic.

See “MD&A—Forward-Looking Statements” in this Report for more information on the forward-looking statements and “Part I—Item 1A. Risk Factors” in our 2020 Form 10-K for factors that could materially influence our results.

### **Total Company Expectations**

- We expect marketing expense for the fourth quarter of 2021 to be higher than the third quarter of 2021, consistent with historical seasonal patterns.
- Investments in our technology strategy, driven by the rapidly changing marketplace, are likely to pressure the operating efficiency ratio.
- We expect to pay preferred stock dividends of \$74 million in the fourth quarter of 2021 and \$57 million per quarter in 2022, barring additional activity and subject to Board approval.

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## CONSOLIDATED RESULTS OF OPERATIONS

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The section below provides a comparative discussion of our consolidated financial performance for the third quarter and first nine months of 2021 and 2020. We provide a discussion of our business segment results in the following section, “MD&A—Business Segment Financial Performance.” This section should be read 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 interest income, including certain fees, earned on our interest-earning assets and the interest expense incurred on our interest-bearing liabilities. Our 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, other borrowings and other interest-bearing liabilities. Generally, we include in interest income any past due fees on loans that we deem collectible. Our net interest margin, based on our consolidated results, represents the difference between the yield on our interest-earning assets and the cost of our interest-bearing liabilities, including the notional impact of non-interest-bearing funding. We expect net interest income and our net interest margin to fluctuate based on changes in interest rates and changes in the amount and composition of our interest-earning assets and interest-bearing liabilities.

Table 2 below presents the average outstanding balance, interest income earned, interest expense incurred and average yield for the third quarter and first nine months of 2021 and 2020 for each major category of our interest-earning assets and interest-bearing liabilities. Nonperforming loans are included in the average loan balances below.

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

|  | Three Months Ended September 30, |                         |                    |                 |                         |                    |
|--|----------------------------------|-------------------------|--------------------|-----------------|-------------------------|--------------------|
|  | 2021                             |                         |                    | 2020            |                         |                    |
| (Dollars in millions)                              | Average Balance                  | Interest Income/Expense | Average Yield/Rate | Average Balance | Interest Income/Expense | Average Yield/Rate |
| <b>Assets:</b>                                     |                                  |                         |                    |                 |                         |                    |
| Interest-earning assets:                           |                                  |                         |                    |                 |                         |                    |
| Loans: <sup>(1)</sup>                              |                                  |                         |                    |                 |                         |                    |
| Credit card  | \$ 106,566                       | \$ 3,965                | 14.88 %            | \$ 105,390      | \$ 3,644                | 13.83 %            |
| Consumer banking                                   | 75,997                           | 1,479                   | 7.78               | 67,822          | 1,417                   | 8.36               |
| Commercial banking <sup>(2)</sup>                  | 77,672                           | 538                     | 2.77               | 77,313          | 544                     | 2.82               |
| Other <sup>(3)</sup>                               | —                                | 223                     | **                 | —               | 153                     | **                 |
| Total loans, including loans held for sale         | 260,235                          | 6,205                   | 9.54               | 250,525         | 5,758                   | 9.19               |
| Investment securities <sup>(4)</sup>               | 98,802                           | 317                     | 1.28               | 91,777          | 443                     | 1.93               |
| Cash equivalents and other interest-earning assets | 28,729                           | 16                      | 0.22               | 49,149          | 14                      | 0.11               |
| Total interest-earning assets                      | 387,766                          | 6,538                   | 6.74               | 391,451         | 6,215                   | 6.35               |
| Cash and due from banks                            | 5,467                            |                         |                    | 4,697           |                         |                    |
| Allowance for credit losses                        | (12,341)                         |                         |                    | (16,839)        |                         |                    |
| Premises and equipment, net                        | 4,238                            |                         |                    | 4,319           |                         |                    |
| Other assets                                       | 39,376                           |                         |                    | 39,226          |                         |                    |
| Total assets                                       | \$ 424,506                       |                         |                    | \$ 422,854      |                         |                    |
| <b>Liabilities and stockholders' equity:</b>       |                                  |                         |                    |                 |                         |                    |
| Interest-bearing liabilities:                      |                                  |                         |                    |                 |                         |                    |
| Interest-bearing deposits                          | \$ 269,278                       | \$ 228                  | 0.34 %             | \$ 276,339      | \$ 476                  | 0.69 %             |
| Securitized debt obligations                       | 12,420                           | 29                      | 0.93               | 15,032          | 43                      | 1.14               |
| Senior and subordinated notes                      | 24,241                           | 116                     | 1.91               | 28,497          | 132                     | 1.86               |
| Other borrowings and liabilities                   | 2,357                            | 9                       | 1.49               | 2,119           | 9                       | 1.77               |
| Total interest-bearing liabilities                 | 308,296                          | 382                     | 0.49               | 321,987         | 660                     | 0.82               |
| Non-interest-bearing deposits                      | 35,757                           |                         |                    | 29,177          |                         |                    |
| Other liabilities                                  | 15,771                           |                         |                    | 14,467          |                         |                    |
| Total liabilities                                  | 359,824                          |                         |                    | 365,631         |                         |                    |
| Stockholders' equity                               | 64,682                           |                         |                    | 57,223          |                         |                    |
| Total liabilities and stockholders' equity         | \$ 424,506                       |                         |                    | \$ 422,854      |                         |                    |
| Net interest income/spread                         |                                  | \$ 6,156                | 6.25               |                 | \$ 5,555                | 5.53               |
| Impact of non-interest-bearing funding             |                                  |                         | 0.10               |                 |                         | 0.15               |
| Net interest margin                                |                                  |                         | 6.35 %             |                 |                         | 5.68 %             |

|  | Nine Months Ended September 30, |                         |                    |                 |                         |                    |
|--|---------------------------------|-------------------------|--------------------|-----------------|-------------------------|--------------------|
|  | 2021                            |                         |                    | 2020            |                         |                    |
|  | Average Balance                 | Interest Income/Expense | Average Yield/Rate | Average Balance | Interest Income/Expense | Average Yield/Rate |
| <i>(Dollars in millions)</i>                       |                                 |                         |                    |                 |                         |                    |
| <b>Assets:</b>                                     |                                 |                         |                    |                 |                         |                    |
| Interest-earning assets:                           |                                 |                         |                    |                 |                         |                    |
| Loans: <sup>(1)</sup>                              |                                 |                         |                    |                 |                         |                    |
| Credit card  | \$ 103,591                      | \$ 11,246               | 14.47 %            | \$ 112,305      | \$ 11,812               | 14.02 %            |
| Consumer banking                                   | 72,670                          | 4,343                   | 7.97               | 65,457          | 4,128                   | 8.41               |
| Commercial banking <sup>(2)</sup>                  | 75,852                          | 1,564                   | 2.75               | 78,403          | 1,898                   | 3.23               |
| Other <sup>(3)</sup>                               | —                               | 659                     | **                 | —               | 282                     | **                 |
| Total loans, including loans held for sale         | 252,113                         | 17,812                  | 9.42               | 256,165         | 18,120                  | 9.43               |
| Investment securities                              | 99,059                          | 1,078                   | 1.45               | 83,724          | 1,455                   | 2.32               |
| Cash equivalents and other interest-earning assets | 37,648                          | 48                      | 0.17               | 35,152          | 67                      | 0.25               |
| Total interest-earning assets                      | 388,820                         | 18,938                  | 6.49               | 375,041         | 19,642                  | 6.98               |
| Cash and due from banks                            | 5,300                           |                         |                    | 4,913           |                         |                    |
| Allowance for credit losses                        | (13,954)                        |                         |                    | (13,796)        |                         |                    |
| Premises and equipment, net                        | 4,265                           |                         |                    | 4,332           |                         |                    |
| Other assets                                       | 39,026                          |                         |                    | 37,743          |                         |                    |
| Total assets                                       | \$ 423,457                      |                         |                    | \$ 408,233      |                         |                    |
| <b>Liabilities and stockholders' equity:</b>       |                                 |                         |                    |                 |                         |                    |
| Interest-bearing liabilities:                      |                                 |                         |                    |                 |                         |                    |
| Interest-bearing deposits                          | \$ 272,022                      | \$ 734                  | 0.36 %             | \$ 259,631      | \$ 1,818                | 0.93 %             |
| Securitized debt obligations                       | 11,851                          | 89                      | 1.00               | 16,500          | 198                     | 1.60               |
| Senior and subordinated notes                      | 25,555                          | 367                     | 1.92               | 30,371          | 551                     | 2.42               |
| Other borrowings and liabilities                   | 2,256                           | 27                      | 1.59               | 3,147           | 35                      | 1.50               |
| Total interest-bearing liabilities                 | 311,684                         | 1,217                   | 0.52               | 309,649         | 2,602                   | 1.12               |
| Non-interest-bearing deposits                      | 34,080                          |                         |                    | 26,611          |                         |                    |
| Other liabilities                                  | 15,118                          |                         |                    | 14,171          |                         |                    |
| Total liabilities                                  | 360,882                         |                         |                    | 350,431         |                         |                    |
| Stockholders' equity                               | 62,575                          |                         |                    | 57,802          |                         |                    |
| Total liabilities and stockholders' equity         | \$ 423,457                      |                         |                    | \$ 408,233      |                         |                    |
| Net interest income/spread                         |                                 | \$ 17,721               | 5.97               |                 | \$ 17,040               | 5.86               |
| Impact of non-interest-bearing funding             |                                 |                         | 0.11               |                 |                         | 0.20               |
| Net interest margin                                |                                 |                         | 6.08 %             |                 |                         | 6.06 %             |

<sup>(1)</sup> Past due fees included in interest income totaled approximately \$401 million and \$1.0 billion in the third quarter and first nine months of 2021, respectively, and \$277 million and \$933 million in the third quarter and first nine months of 2020, respectively.

<sup>(2)</sup> Some of our commercial loans generate tax-exempt income. Accordingly, we present our Commercial Banking interest income and yields on a taxable-equivalent basis, calculated using the federal statutory rate of 21% and state taxes where applicable, with offsetting reductions to the Other category. Taxable-equivalent adjustments included in the interest income and yield computations for our commercial loans totaled approximately \$18 million and \$56 million in the third quarter and first nine months of 2021, respectively, and \$20 million and \$61 million in the third quarter and first nine months of 2020, respectively, with corresponding reductions to the Other category.

<sup>(3)</sup> Interest income/expense in the Other category represents the impact of hedge accounting on our loan portfolios and the offsetting reduction of the taxable-equivalent adjustments of our commercial loans as described above.

<sup>(4)</sup> Includes a catch-up in amortization expense related to prepayment activity on certain securities that reduced yield by 20 basis points for the three months ended September 30, 2021.

\*\* Not meaningful.

Net interest income increased by \$601 million to \$6.2 billion in the third quarter of 2021 compared to the third quarter of 2020, primarily driven by higher margins and average loans outstanding in our credit card loan portfolio and higher average loans outstanding in our auto loan portfolio. Net interest income increased by \$681 million to \$17.7 billion in the first nine months of

2021 compared to the first nine months of 2020 primarily driven by lower interest rates paid on interest-bearing deposits and higher average outstanding balances in our auto loan portfolio.

Net interest margin increased by 67 basis points to 6.35% in the third quarter of 2021 compared to the third quarter of 2020 primarily driven by lower interest rates paid on interest-bearing liabilities, higher average loan balances and lower average cash balances, partially offset by higher average investment securities balances. Net interest margin remained relatively flat at 6.08% in the first nine months of 2021 compared to the first nine months of 2020.

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<sup>(1)</sup>**

|  | Three Months Ended September 30, |        |        | Nine Months Ended September 30, |          |         |
|--|----------------------------------|--------|--------|---------------------------------|----------|---------|
|  | 2021 vs. 2020                    |        |        | 2021 vs. 2020                   |          |         |
| (Dollars in millions)                              | Total Variance                   | Volume | Rate   | Total Variance                  | Volume   | Rate    |
| <b>Interest income:</b>                            |                                  |        |        |                                 |          |         |
| Loans:   |                                  |        |        |                                 |          |         |
| Credit card  | \$ 321                           | \$ 41  | \$ 280 | \$ (566)                        | \$ (917) | \$ 351  |
| Consumer banking                                   | 62                               | 159    | (97)   | 215                             | 431      | (216)   |
| Commercial banking <sup>(2)</sup>                  | (6)                              | 2      | (8)    | (334)                           | (60)     | (274)   |
| Other <sup>(3)</sup>                               | 70                               | —      | 70     | 377                             | —        | 377     |
| Total loans, including loans held for sale         | 447                              | 202    | 245    | (308)                           | (546)    | 238     |
| Investment securities                              | (126)                            | 23     | (149)  | (377)                           | 167      | (544)   |
| Cash equivalents and other interest-earning assets | 2                                | (6)    | 8      | (19)                            | 3        | (22)    |
| Total interest income                              | 323                              | 219    | 104    | (704)                           | (376)    | (328)   |
| <b>Interest expense:</b>                           |                                  |        |        |                                 |          |         |
| Interest-bearing deposits                          | (248)                            | (12)   | (236)  | (1,084)                         | 33       | (1,117) |
| Securitized debt obligations                       | (14)                             | (7)    | (7)    | (109)                           | (45)     | (64)    |
| Senior and subordinated notes                      | (16)                             | (20)   | 4      | (184)                           | (79)     | (105)   |
| Other borrowings and liabilities                   | —                                | 1      | (1)    | (8)                             | (10)     | 2       |
| Total interest expense                             | (278)                            | (38)   | (240)  | (1,385)                         | (101)    | (1,284) |
| Net interest income                                | \$ 601                           | \$ 257 | \$ 344 | \$ 681                          | \$ (275) | \$ 956  |

<sup>(1)</sup> 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.

<sup>(2)</sup> Some of our commercial loans generate tax-exempt income. Accordingly, we present our Commercial Banking interest income and yields on a taxable-equivalent basis, calculated using the federal statutory rate of 21% and state taxes where applicable, with offsetting reductions to the Other category.

<sup>(3)</sup> Interest income/expense in the Other category represents the impact of hedge accounting on our loan portfolios and the offsetting reduction of the taxable-equivalent adjustments of our commercial loans as described above.

## Non-Interest Income

Table 4 displays the components of non-interest income for the third quarter and first nine months of 2021 and 2020.

**Table 4: Non-Interest Income**

| <i>(Dollars in millions)</i>                    | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|---|----------------------------------|----------|---------------------------------|----------|
|   | 2021                             | 2020     | 2021                            | 2020     |
| Interchange fees, net                           | \$ 1,022                         | \$ 775   | \$ 2,855                        | \$ 2,199 |
| Service charges and other customer-related fees | 407                              | 320      | 1,143                           | 905      |
| Net securities gains (losses)                   | 2                                | 25       | 6                               | 25       |
| Other non-interest income: <sup>(1)</sup>       |                                  |          |                                 |          |
| Mortgage banking revenue                        | 84                               | 66       | 184                             | 172      |
| Treasury and other investment income            | 50                               | 516      | 128                             | 572      |
| Other   | 109                              | 124      | 280                             | 273      |
| Total other non-interest income                 | 243                              | 706      | 592                             | 1,017    |
| Total non-interest income                       | \$ 1,674                         | \$ 1,826 | \$ 4,596                        | \$ 4,146 |

<sup>(1)</sup> Includes a loss of \$1 million and a gain of \$44 million on deferred compensation plan investments for the third quarter and first nine months of 2021, respectively, and gains of \$19 million and \$4 million on deferred compensation plan investments for the third quarter and first nine months of 2020, respectively. These amounts have corresponding offsets in other non-interest expense.

Non-interest income decreased by \$152 million to \$1.7 billion in the third quarter of 2021 compared to the third quarter of 2020 primarily driven by the absence of a gain on our equity investment in Snowflake Inc. in the third quarter of 2020, partially offset by higher net interchange fees due to an increase in purchase volume.

Non-interest income increased by \$450 million to \$4.6 billion in the first nine months of 2021 compared to the first nine months of 2020 primarily driven by higher net interchange fees due to an increase in purchase volume, partially offset by the absence of a gain on our equity investment in Snowflake Inc.

## Provision for Credit Losses

Our provision for credit losses in each period is driven by net charge-offs, changes to the allowance for credit losses and changes to the reserve for unfunded lending commitments. Our provision for credit losses decreased by \$673 million to a benefit of \$342 million in the third quarter of 2021 compared to the third quarter of 2020 driven by an allowance release primarily due to strong credit performance. Our provision for credit losses decreased by \$12.3 billion to a benefit of \$2.3 billion in the first nine months of 2021 as a result of allowance releases in 2021 due to continued strong credit performance and an improved economic outlook, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic.

We provide additional information on the provision for credit losses and changes in the allowance for credit losses within “MD&A—Credit Risk Profile” and “Note 4—Allowance for Credit Losses and Reserve 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 2020 Form 10-K.

## Non-Interest Expense

Table 5 displays the components of non-interest expense for the third quarter and first nine months of 2021 and 2020.

**Table 5: Non-Interest Expense**

| <i>(Dollars in millions)</i>                   | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2021                             | 2020     | 2021                            | 2020      |
| Salaries and associate benefits <sup>(1)</sup> | \$ 1,852                         | \$ 1,719 | \$ 5,480                        | \$ 5,050  |
| Occupancy and equipment                        | 481                              | 506      | 1,476                           | 1,546     |
| Marketing                                      | 751                              | 283      | 1,872                           | 1,047     |
| Professional services                          | 358                              | 327      | 991                             | 918       |
| Communications and data processing             | 319                              | 310      | 936                             | 920       |
| Amortization of intangibles                    | 5                                | 14       | 16                              | 52        |
| Other non-interest expense:                    |                                  |          |                                 |           |
| Bankcard, regulatory and other fee assessments | 50                               | 69       | 140                             | 210       |
| Collections                                    | 93                               | 74       | 272                             | 255       |
| Fraud losses                                   | 42                               | 56       | 117                             | 206       |
| Other  | 235                              | 190      | 592                             | 843       |
| Total other non-interest expense               | 420                              | 389      | 1,121                           | 1,514     |
| Total non-interest expense                     | \$ 4,186                         | \$ 3,548 | \$ 11,892                       | \$ 11,047 |

<sup>(1)</sup> Includes a benefit of \$1 million and expense of \$44 million related to our deferred compensation plan investments for the third quarter and first nine months of 2021, respectively, and expense of \$19 million and \$4 million related to our deferred compensation plan investments for the third quarter and first nine months of 2020, respectively. These amounts have corresponding offsets in other non-interest income.

Non-interest expense increased by \$638 million to \$4.2 billion in the third quarter of 2021 compared to the third quarter of 2020 driven by increased marketing spend and increased salaries and associate benefits due to continued investment in technology.

Non-interest expense increased by \$845 million to \$11.9 billion in the first nine months of 2021 compared to the first nine months of 2020, primarily driven by increased marketing spend and increased salaries and associate benefits due to continued investment in technology, partially offset by lower legal reserve builds.

## Income Taxes

We recorded an income tax provision of \$882 million (22.1% effective income tax rate) and \$2.8 billion (21.8% effective income tax rate) in the third quarter and first nine months of 2021, respectively, compared to an income tax expense of \$1.1 billion (31.3% effective income tax rate) and an income tax benefit of \$10 million (negative 7.2% effective income tax rate) in the third quarter and first nine months of 2020, respectively. Our effective tax rate on income from continuing operations varies between periods due, in part, to the impact of changes in pre-tax income and changes in tax credits, tax-exempt income and non-deductible expenses relative to our pre-tax earnings.

Our effective income tax rate decreased for the third quarter of 2021 and increased for the first nine months of 2021 compared to the same periods in 2020 primarily driven by the impact of changes in pre-tax income and the relationship of our tax credits in proportion to our pre-tax earnings.

We provide additional information on items affecting our income taxes and effective tax rate in “Note 15—Income Taxes” in our 2020 Form 10-K.

## CONSOLIDATED BALANCE SHEETS ANALYSIS

Total assets increased by \$3.8 billion to \$425.4 billion as of September 30, 2021 from December 31, 2020 primarily driven by loan growth and allowance releases, partially offset by a decrease in our cash balances.

Total liabilities remained substantially flat at \$361.8 billion as of September 30, 2021.

Stockholders' equity increased by \$3.3 billion to \$63.5 billion as of September 30, 2021 from December 31, 2020 primarily due to our net income of \$10.0 billion, partially offset by the repurchase of shares of our common stock.

The following is a discussion of material changes in the major components of our assets and liabilities during the first nine months of 2021. Period-end balance sheet amounts may vary from average balance sheet amounts due to liquidity and balance sheet management activities that are intended to support the adequacy of capital while managing our liquidity requirements, our customers and our market risk exposure in accordance with our risk appetite.

### Investment Securities

Our investment securities portfolio consists of the following: U.S. government-sponsored enterprise or agency ("Agency") and non-agency residential mortgage-backed securities ("RMBS"), Agency commercial mortgage-backed securities ("CMBS"), U.S. Treasury securities and other securities. Agency securities include Government National Mortgage Association ("Ginnie Mae") guaranteed securities, Federal National Mortgage Association ("Fannie Mae") and Federal Home Loan Mortgage Corporation ("Freddie Mac") issued securities. The carrying value of our investments in Agency and U.S. Treasury securities represented 96% of our total investment securities portfolio as of both September 30, 2021 and December 31, 2020.

The fair value of our available for sale securities portfolio decreased by \$2.3 billion to \$98.1 billion as of September 30, 2021 from December 31, 2020, primarily driven by the increase in interest rates. See "Note 2—Investment Securities" for more information.

Table 6 presents the amortized cost and fair value for the major security types in our available for sale securities portfolio as of September 30, 2021 and December 31, 2020.

**Table 6: Investment Securities**

|   | September 30, 2021 |                  | December 31, 2020 |                   |
|---|--------------------|------------------|-------------------|-------------------|
|   | Amortized Cost     | Fair Value       | Amortized Cost    | Fair Value        |
| <i>(Dollars in millions)</i>                          |                    |                  |                   |                   |
| <b>Investment securities available for sale:</b>      |                    |                  |                   |                   |
| U.S. Treasury securities                              | \$ 9,094           | \$ 9,109         | \$ 9,302          | \$ 9,318          |
| RMBS:   |                    |                  |                   |                   |
| Agency  | 73,924             | 74,632           | 73,248            | 75,466            |
| Non-agency  | 844                | 1,049            | 1,035             | 1,237             |
| Total RMBS  | 74,768             | 75,681           | 74,283            | 76,703            |
| Agency CMBS   | 9,973              | 10,197           | 11,298            | 11,735            |
| Other securities <sup>(1)</sup>                       | 3,154              | 3,162            | 2,686             | 2,689             |
| <b>Total investment securities available for sale</b> | <b>\$ 96,989</b>   | <b>\$ 98,149</b> | <b>\$ 97,569</b>  | <b>\$ 100,445</b> |

<sup>(1)</sup> Includes \$2.3 billion and \$1.8 billion of asset-backed securities as of September 30, 2021 and December 31, 2020, respectively. The remaining amount is primarily comprised of supranational bonds and foreign government bonds.

## Loans Held for Investment

Total loans held for investment consists of both unsecuritized loans and loans held in our consolidated trusts. Table 7 summarizes, by portfolio segment, the carrying value of our loans held for investment, the allowance for credit losses and net loan balance as of September 30, 2021 and December 31, 2020.

**Table 7: Loans Held for Investment**

| <i>(Dollars in millions)</i> | September 30, 2021 |           |            | December 31, 2020 |           |            |
|------------------------------|--------------------|-----------|------------|-------------------|-----------|------------|
|                              | Loans              | Allowance | Net Loans  | Loans             | Allowance | Net Loans  |
| Credit Card                  | \$ 105,030         | \$ 8,306  | \$ 96,724  | \$ 106,956        | \$ 11,191 | \$ 95,765  |
| Consumer Banking             | 77,112             | 2,061     | 75,051     | 68,888            | 2,715     | 66,173     |
| Commercial Banking           | 79,248             | 1,206     | 78,042     | 75,780            | 1,658     | 74,122     |
| Total                        | \$ 261,390         | \$ 11,573 | \$ 249,817 | \$ 251,624        | \$ 15,564 | \$ 236,060 |

Loans held for investment increased by \$9.8 billion to \$261.4 billion as of September 30, 2021 from December 31, 2020 primarily driven by growth in our auto and commercial loan portfolios, partially offset by the transfer of a \$2.6 billion international card partnership portfolio to held for sale in the second quarter of 2021.

We provide additional information on the composition of our loan portfolio and credit quality in “MD&A—Credit Risk Profile,” “MD&A—Consolidated Results of Operations” and “Note 3—Loans.”

## Funding Sources

Our primary source of funding comes from deposits, as they are a stable and relatively low cost source of funding. In addition to deposits, we raise funding through the issuance of senior and subordinated notes, securitized debt obligations, federal funds purchased, securities loaned or sold under agreements to repurchase, and Federal Home Loan Banks (“FHLB”) advances secured by certain portions of our loan and securities portfolios.

Table 8 provides the composition of our primary sources of funding as of September 30, 2021 and December 31, 2020.

**Table 8: Funding Sources Composition**

| <i>(Dollars in millions)</i> | September 30, 2021 |            | December 31, 2020 |            |
|------------------------------|--------------------|------------|-------------------|------------|
|                              | Amount             | % of Total | Amount            | % of Total |
| Deposits:                    |                    |            |                   |            |
| Consumer Banking             | \$ 252,387         | 73 %       | \$ 249,815        | 72 %       |
| Commercial Banking           | 43,347             | 13         | 39,590            | 11         |
| Other <sup>(1)</sup>         | 10,204             | 3          | 16,037            | 5          |
| Total deposits               | 305,938            | 89         | 305,442           | 88         |
| Securitized debt obligations | 12,635             | 4          | 12,414            | 4          |
| Other debt                   | 24,866             | 7          | 28,125            | 8          |
| Total funding sources        | \$ 343,439         | 100 %      | \$ 345,981        | 100 %      |

<sup>(1)</sup> Includes brokered deposits of \$9.1 billion and \$15.0 billion as of September 30, 2021 and December 31, 2020, respectively.

Total deposits increased by \$496 million to \$305.9 billion as of September 30, 2021 from December 31, 2020 primarily driven by increased consumer savings, as well as commercial clients holding elevated levels of liquidity, partially offset by maturities in brokered deposits.

Securitized debt obligations increased by \$221 million to \$12.6 billion as of September 30, 2021 from December 31, 2020 primarily driven by issuances in our credit card securitization program, partially offset by maturities and paydowns in our securitization programs.

Other debt decreased by \$3.3 billion to \$24.9 billion as of September 30, 2021 from December 31, 2020 primarily driven by redemptions of our senior debt, partially offset by the issuance of subordinated debt.

We provide additional information on our funding sources in “MD&A—Liquidity Risk Profile” and “Note 7—Deposits and Borrowings.”

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## **OFF-BALANCE SHEET ARRANGEMENTS**

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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 letters of credit, 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 “Note 5—Variable Interest Entities and Securitizations” and “Note 13—Commitments, Contingencies, Guarantees and Others.”

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## **BUSINESS SEGMENT FINANCIAL PERFORMANCE**

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Our principal operations are organized for management reporting purposes into three major business segments, which are defined primarily based on the products and services provided or the types of customer served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into or managed as a part of our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio, asset/liability management by our centralized Corporate Treasury group and calculation of our residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments, are included in the Other category.

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 may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies and changes in organizational alignment. Our business segment results are intended to reflect each segment as if it were a stand-alone business. We use an internal management and reporting process to derive our business segment results. Our internal management and reporting process employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Total interest income and non-interest income are directly attributable to the segment in which they are reported. The net interest income of each segment reflects the results of our funds transfer pricing process, which is primarily based on a matched funding concept that takes into consideration market interest rates. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a charge for the use of funds by each segment. The allocation process is unique to each business segment and acquired business. We regularly assess the assumptions, methodologies and reporting classifications used for segment reporting, which may result in the implementation of refinements or changes in future periods. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 17—Business Segments and Revenue from Contracts with Customers” in our 2020 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.

We summarize our business segment results for the third quarter and first nine months of 2021 and 2020 and provide a comparative discussion of these results, as well as changes in our financial condition and credit performance metrics as of September 30, 2021 compared to December 31, 2020. We provide a reconciliation of our total business segment results to our reported consolidated results in “Note 12—Business Segments and Revenue from Contracts with Customers.”

### Business Segment Financial Performance

Table 9 summarizes our business segment results, which we report based on revenue (loss) and income (loss) from continuing operations, for the third quarter and first nine months of 2021 and 2020.

**Table 9: Business Segment Results**

|                                   | Three Months Ended September 30,        |              |                                  |              |                                  |              |                                  |              |
|-----------------------------------|---|--------------|----------------------------------|--------------|----------------------------------|--------------|----------------------------------|--------------|
|                                   | 2021                                    |              |                                  |              | 2020                             |              |                                  |              |
|                                   | Total Net Revenue (Loss) <sup>(1)</sup> |              | Net Income (Loss) <sup>(2)</sup> |              | Total Net Revenue <sup>(1)</sup> |              | Net Income (Loss) <sup>(2)</sup> |              |
| (Dollars in millions)             | Amount                                  | % of Total   | Amount                           | % of Total   | Amount                           | % of Total   | Amount                           | % of Total   |
| Credit Card                       | \$ 4,883                                | 63 %         | \$ 2,030                         | 65 %         | \$ 4,305                         | 58 %         | \$ 1,414                         | 59 %         |
| Consumer Banking                  | 2,286                                   | 29           | 909                              | 29           | 2,011                            | 27           | 796                              | 33           |
| Commercial Banking <sup>(3)</sup> | 884                                     | 11           | 365                              | 12           | 754                              | 10           | 309                              | 13           |
| Other <sup>(3)</sup>              | (223)                                   | (3)          | (200)                            | (6)          | 311                              | 5            | (113)                            | (5)          |
| <b>Total</b>                      | <b>\$ 7,830</b>                         | <b>100 %</b> | <b>\$ 3,104</b>                  | <b>100 %</b> | <b>\$ 7,381</b>                  | <b>100 %</b> | <b>\$ 2,406</b>                  | <b>100 %</b> |

  

|                                   | Nine Months Ended September 30,         |              |                                  |              |                                  |              |                                  |              |
|-----------------------------------|---|--------------|----------------------------------|--------------|----------------------------------|--------------|----------------------------------|--------------|
|                                   | 2021                                    |              |                                  |              | 2020                             |              |                                  |              |
|                                   | Total Net Revenue (Loss) <sup>(1)</sup> |              | Net Income (Loss) <sup>(2)</sup> |              | Total Net Revenue <sup>(1)</sup> |              | Net Income (Loss) <sup>(2)</sup> |              |
| (Dollars in millions)             | Amount                                  | % of Total   | Amount                           | % of Total   | Amount                           | % of Total   | Amount                           | % of Total   |
| Credit Card                       | \$ 13,754                               | 61 %         | \$ 6,305                         | 63 %         | \$ 13,132                        | 62 %         | \$ (110)                         | (74)%        |
| Consumer Banking                  | 6,702                                   | 30           | 2,902                            | 29           | 5,556                            | 26           | 630                              | 423          |
| Commercial Banking <sup>(3)</sup> | 2,361                                   | 11           | 1,177                            | 12           | 2,181                            | 10           | (220)                            | (148)        |
| Other <sup>(3)</sup>              | (500)                                   | (2)          | (416)                            | (4)          | 317                              | 2            | (151)                            | (101)        |
| <b>Total</b>                      | <b>\$ 22,317</b>                        | <b>100 %</b> | <b>\$ 9,968</b>                  | <b>100 %</b> | <b>\$ 21,186</b>                 | <b>100 %</b> | <b>\$ 149</b>                    | <b>100 %</b> |

<sup>(1)</sup> Total net revenue (loss) consists of net interest income and non-interest income.

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

<sup>(3)</sup> Some of our commercial investments generate tax-exempt income, tax credits or other tax benefits. Accordingly, we present our Commercial Banking revenue and yields on a taxable-equivalent basis, calculated using the federal statutory tax rate of 21% and state taxes where applicable, with offsetting reductions to the Other category.

## Credit Card Business

The primary sources of revenue for our Credit Card business are net 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 \$2.0 billion and \$6.3 billion in the third quarter and first nine months of 2021, respectively, compared to net income of \$1.4 billion in the third quarter of 2020 and net loss of \$110 million in the first nine months of 2020.

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**

| <i>(Dollars in millions, except as noted)</i>                | Three Months Ended September 30, |                   |          | Nine Months Ended September 30, |            |          |
|--|----------------------------------|-------------------|----------|---------------------------------|------------|----------|
|  | 2021                             | 2020              | Change   | 2021                            | 2020       | Change   |
| <b>Selected income statement data:</b>                       |                                  |                   |          |                                 |            |          |
| Net interest income  | \$ 3,620                         | \$ 3,292          | 10 %     | \$ 10,209                       | \$ 10,363  | (1) %    |
| Non-interest income  | 1,263                            | 1,013             | 25       | 3,545                           | 2,769      | 28       |
| Total net revenue <sup>(1)</sup>                             | 4,883                            | 4,305             | 13       | 13,754                          | 13,132     | 5        |
| Provision (benefit) for credit losses                        | (198)                            | 450               | **       | (1,325)                         | 7,096      | **       |
| Non-interest expense   | 2,424                            | 2,003             | 21       | 6,822                           | 6,180      | 10       |
| Income (loss) from continuing operations before income taxes | 2,657                            | 1,852             | 43       | 8,257                           | (144)      | **       |
| Income tax provision (benefit)                               | 627                              | 438               | 43       | 1,952                           | (34)       | **       |
| Income (loss) from continuing operations, net of tax         | \$ 2,030                         | \$ 1,414          | 44       | \$ 6,305                        | \$ (110)   | **       |
| <b>Selected performance metrics:</b>                         |                                  |                   |          |                                 |            |          |
| Average loans held for investment                            | \$ 102,046                       | \$ 105,367        | (3)      | \$ 100,757                      | \$ 112,272 | (10)     |
| Average yield on loans <sup>(2)</sup>                        | 14.88 %                          | 13.83 %           | 105 bps  | 14.47 %                         | 14.03 %    | 44 bps   |
| Total net revenue margin <sup>(3)</sup>                      | 18.33                            | 16.34             | 199      | 17.70                           | 15.59      | 211      |
| Net charge-offs  | \$ 366                           | \$ 943            | (61) %   | \$ 1,570                        | \$ 3,590   | (56) %   |
| Net charge-off rate  | 1.43 %                           | 3.58 %            | (215)bps | 2.08 %                          | 4.26 %     | (218)bps |
| Purchase volume  | \$ 136,614                       | \$ 107,102        | 28 %     | \$ 377,623                      | \$ 297,171 | 27 %     |
|  |                                  |                   |          |                                 |            |          |
| <i>(Dollars in millions, except as noted)</i>                | September 30, 2021               | December 31, 2020 | Change   |                                 |            |          |
| <b>Selected period-end data:</b>                             |                                  |                   |          |                                 |            |          |
| Loans held for investment                                    | \$ 105,030                       | \$ 106,956        | (2) %    |                                 |            |          |
| 30+ day performing delinquency rate                          | 2.00 %                           | 2.44 %            | (44)bps  |                                 |            |          |
| 30+ day delinquency rate                                     | 2.00                             | 2.45              | (45)     |                                 |            |          |
| Nonperforming loan rate <sup>(4)</sup>                       | 0.01                             | 0.02              | (1)      |                                 |            |          |
| Allowance for credit losses                                  | \$ 8,306                         | \$ 11,191         | (26) %   |                                 |            |          |
| Allowance coverage ratio                                     | 7.91 %                           | 10.46 %           | (255)bps |                                 |            |          |

<sup>(1)</sup> We recognize finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and charge off uncollectible amounts. Total net revenue was reduced by \$123 million and \$478 million in the third quarter and first nine months of 2021, respectively, compared to \$235 million and \$942 million in the third quarter and first nine months of 2020, respectively, for credit card finance charges and fees charged off as uncollectible.

<sup>(2)</sup> Average yield is calculated based on annualized interest income for the period divided by average loans during the period and does not include any allocations, such as funds transfer pricing.

<sup>(3)</sup> Total net revenue margin is calculated based on annualized total net revenue for the period divided by average loans during the period.

<sup>(4)</sup> 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.

\*\* Not meaningful.

Key factors affecting the results of our Credit Card business for the third quarter and first nine months of 2021 compared to the third quarter and first nine months of 2020, and changes in financial condition and credit performance between September 30, 2021 and December 31, 2020 include the following:

- *Net Interest Income:* Net interest income increased by \$328 million to \$3.6 billion in the third quarter of 2021 primarily driven by higher margins and higher average loan balances. Net interest income decreased by \$154 million to \$10.2 billion in the first nine months of 2021 primarily driven by lower average loan balances.
- *Non-Interest Income:* Non-interest income increased by \$250 million to \$1.3 billion in the third quarter of 2021 and increased by \$776 million to \$3.5 billion in the first nine months of 2021 primarily driven by higher net interchange fees due to an increase in purchase volume.
- *Provision for Credit Losses:* Provision for credit losses decreased by \$648 million to a benefit of \$198 million in the third quarter of 2021 driven by an allowance release primarily due to strong credit performance. Provision for credit losses decreased by \$8.4 billion to a benefit of \$1.3 billion in the first nine months of 2021 resulting from allowance releases in 2021 due to continued strong credit performance and an improved economic outlook, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic.
- *Non-Interest Expense:* Non-interest expense increased by \$421 million to \$2.4 billion in the third quarter of 2021 and increased by \$642 million to \$6.8 billion in the first nine months of 2021 primarily driven by increased marketing spend.
- *Loans Held for Investment:*
  - Period-end loans held for investment decreased by \$1.9 billion to \$105.0 billion as of September 30, 2021 from December 31, 2020 primarily due to higher customer payments and the transfer of a \$2.6 billion international card partnership portfolio to held for sale in the second quarter of 2021, partially offset by higher purchase volume.
  - Average loans held for investment decreased by \$3.3 billion to \$102.0 billion in the third quarter of 2021 compared to the third quarter of 2020 and decreased by \$11.5 billion to \$100.8 billion in the first nine months of 2021 compared to the first nine months of 2020 primarily due to higher customer payments and the transfer of a \$2.6 billion international card partnership portfolio to held for sale in the second quarter of 2021, partially offset by higher purchase volume.
- *Net Charge-Off and Delinquency Metrics:* The net charge-off rate decreased by 215 basis points to 1.43% in the third quarter of 2021 compared to the third quarter of 2020 and decreased by 218 basis points to 2.08% in the first nine months of 2021 compared to the first nine months of 2020 primarily driven by strong credit performance.

The 30+ day delinquency rate decreased by 45 basis points to 2.00% as of September 30, 2021 from December 31, 2020 driven by strong credit performance.

## Domestic Card Business

The Domestic Card business generated net income from continuing operations of \$1.9 billion and \$6.0 billion in the third quarter and first nine months of 2021, respectively, compared to net income of \$1.3 billion in the third quarter of 2020 and net loss of \$192 million in the first nine months of 2020. In the third quarter and first nine months of 2021 and 2020, the Domestic Card business accounted for greater than 90% of total net revenue of our Credit Card business.

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

**Table 10.1: Domestic Card Business Results**

| <i>(Dollars in millions, except as noted)</i>                | Three Months Ended September 30, |                   |          | Nine Months Ended September 30, |            |          |
|--|----------------------------------|-------------------|----------|---------------------------------|------------|----------|
|  | 2021                             | 2020              | Change   | 2021                            | 2020       | Change   |
| <b>Selected income statement data:</b>                       |                                  |                   |          |                                 |            |          |
| Net interest income  | \$ 3,319                         | \$ 2,995          | 11 %     | \$ 9,358                        | \$ 9,470   | (1) %    |
| Non-interest income  | 1,200                            | 952               | 26       | 3,342                           | 2,589      | 29       |
| Total net revenue <sup>(1)</sup>                             | 4,519                            | 3,947             | 14       | 12,700                          | 12,059     | 5        |
| Provision (benefit) for credit losses                        | (200)                            | 378               | **       | (1,252)                         | 6,748      | **       |
| Non-interest expense   | 2,191                            | 1,802             | 22       | 6,148                           | 5,562      | 11       |
| Income (loss) from continuing operations before income taxes | 2,528                            | 1,767             | 43       | 7,804                           | (251)      | **       |
| Income tax provision (benefit)                               | 597                              | 419               | 42       | 1,842                           | (59)       | **       |
| Income (loss) from continuing operations, net of tax         | \$ 1,931                         | \$ 1,348          | 43       | \$ 5,962                        | \$ (192)   | **       |
| <b>Selected performance metrics:</b>                         |                                  |                   |          |                                 |            |          |
| Average loans held for investment                            | \$ 96,309                        | \$ 97,306         | (1)      | \$ 93,493                       | \$ 103,980 | (10)     |
| Average yield on loans <sup>(2)</sup>                        | 14.80 %                          | 13.57 %           | 123 bps  | 14.36 %                         | 13.82 %    | 54 bps   |
| Total net revenue margin <sup>(3)</sup>                      | 18.40                            | 16.22             | 218      | 17.74                           | 15.46      | 228      |
| Net charge-offs  | \$ 327                           | \$ 885            | (63) %   | \$ 1,436                        | \$ 3,359   | (57) %   |
| Net charge-off rate  | 1.36 %                           | 3.64 %            | (228)bps | 2.05 %                          | 4.31 %     | (226)bps |
| Purchase volume  | \$ 126,057                       | \$ 98,107         | 28 %     | \$ 348,472                      | \$ 273,215 | 28 %     |
| <i>(Dollars in millions, except as noted)</i>                |                                  |                   |          |                                 |            |          |
|  | September 30, 2021               | December 31, 2020 | Change   |                                 |            |          |
| <b>Selected period-end data:</b>                             |                                  |                   |          |                                 |            |          |
| Loans held for investment                                    | \$ 99,258                        | \$ 98,504         | 1 %      |                                 |            |          |
| 30+ day performing delinquency rate                          | 1.93 %                           | 2.42 %            | (49)bps  |                                 |            |          |
| Allowance for credit losses                                  | \$ 7,968                         | \$ 10,650         | (25) %   |                                 |            |          |
| Allowance coverage ratio                                     | 8.03 %                           | 10.81 %           | (278)bps |                                 |            |          |

<sup>(1)</sup> We recognize finance charges and fee income on open-ended loans in accordance with the contractual provisions of the credit arrangements and charge off uncollectible amounts. Finance charges and fees charged off as uncollectible are reflected as a reduction in total net revenue.

<sup>(2)</sup> Average yield is calculated based on annualized interest income for the period divided by average loans during the period and does not include any allocations, such as funds transfer pricing.

<sup>(3)</sup> Total net revenue margin is calculated based on annualized total net revenue for the period divided by average loans during the period.

\*\* Not meaningful.

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 increased in the third quarter of 2021 and in the first nine months of 2021 compared to the third quarter of 2020 and the first nine months of 2020 primarily driven by:

- Lower provision for credit losses in the third quarter and first nine months of 2021 resulting from allowance releases in 2021 due to continued strong credit performance and an improved economic outlook, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic.
- Higher net interest income in the third quarter of 2021 primarily driven by higher margins and higher average loan balances.
- Higher non-interest income in the third quarter and first nine months of 2021 primarily due to higher net interchange fees from an increase in purchase volume.

These drivers were partially offset by:

- Higher non-interest expense in the third quarter and first nine months of 2021 primarily driven by increased marketing spend.
- Lower net interest income in the first nine months of 2021 driven by lower average loan balances.

## Consumer Banking Business

The primary sources of revenue for our Consumer Banking business are net interest income from loans and deposits as well as 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 \$909 million and \$2.9 billion in the third quarter and first nine months of 2021, respectively, and \$796 million and \$630 million in the third quarter and first nine months of 2020, respectively.

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

**Table 11: Consumer Banking Business Results**

| <i>(Dollars in millions, except as noted)</i>             | Three Months Ended September 30, |                   |          | Nine Months Ended September 30, |            |         |
|---|----------------------------------|-------------------|----------|---------------------------------|------------|---------|
|   | 2021                             | 2020              | Change   | 2021                            | 2020       | Change  |
| <b>Selected income statement data:</b>                    |                                  |                   |          |                                 |            |         |
| Net interest income                                       | \$ 2,159                         | \$ 1,904          | 13 %     | \$ 6,290                        | \$ 5,226   | 20 %    |
| Non-interest income                                       | 127                              | 107               | 19       | 412                             | 330        | 25      |
| Total net revenue   | 2,286                            | 2,011             | 14       | 6,702                           | 5,556      | 21      |
| Provision (benefit) for credit losses                     | (91)                             | (43)              | 112      | (523)                           | 1,693      | **      |
| Non-interest expense                                      | 1,186                            | 1,011             | 17       | 3,426                           | 3,038      | 13      |
| Income from continuing operations before income taxes     | 1,191                            | 1,043             | 14       | 3,799                           | 825        | **      |
| Income tax provision                                      | 282                              | 247               | 14       | 897                             | 195        | **      |
| Income from continuing operations, net of tax             | \$ 909                           | \$ 796            | 14       | \$ 2,902                        | \$ 630     | **      |
| <b>Selected performance metrics:</b>                      |                                  |                   |          |                                 |            |         |
| Average loans held for investment:                        |                                  |                   |          |                                 |            |         |
| Auto  | \$ 73,296                        | \$ 64,476         | 14       | \$ 69,700                       | \$ 62,434  | 12      |
| Retail banking  | 2,700                            | 3,346             | (19)     | 2,969                           | 3,023      | (2)     |
| Total consumer banking                                    | \$ 75,996                        | \$ 67,822         | 12       | \$ 72,669                       | \$ 65,457  | 11      |
| Average yield on loans held for investment <sup>(1)</sup> | 7.78 %                           | 8.36 %            | (58)bps  | 7.97 %                          | 8.41 %     | (44)bps |
| Average deposits  | \$ 251,307                       | \$ 248,418        | 1 %      | \$ 251,105                      | \$ 231,988 | 8 %     |
| Average deposits interest rate                            | 0.30 %                           | 0.66 %            | (36)bps  | 0.32 %                          | 0.86 %     | (54)bps |
| Net charge-offs   | \$ 51                            | \$ 48             | 6 %      | \$ 131                          | \$ 486     | (73) %  |
| Net charge-off rate                                       | 0.27 %                           | 0.28 %            | (1)bps   | 0.24 %                          | 0.99 %     | (75)bps |
| Auto loan originations                                    | \$ 11,570                        | \$ 8,979          | 29 %     | \$ 33,362                       | \$ 24,910  | 34 %    |
| <br>  |                                  |                   |          |                                 |            |         |
| <i>(Dollars in millions, except as noted)</i>             | September 30, 2021               | December 31, 2020 | Change   |                                 |            |         |
| <b>Selected period-end data:</b>                          |                                  |                   |          |                                 |            |         |
| Loans held for investment:                                |                                  |                   |          |                                 |            |         |
| Auto  | \$ 74,716                        | \$ 65,762         | 14 %     |                                 |            |         |
| Retail banking  | 2,396                            | 3,126             | (23)     |                                 |            |         |
| Total consumer banking                                    | \$ 77,112                        | \$ 68,888         | 12       |                                 |            |         |
| 30+ day performing delinquency rate                       | 3.58 %                           | 4.62 %            | (104)bps |                                 |            |         |
| 30+ day delinquency rate                                  | 3.88                             | 5.00              | (112)    |                                 |            |         |
| Nonperforming loan rate                                   | 0.42                             | 0.47              | (5)      |                                 |            |         |
| Nonperforming asset rate <sup>(2)</sup>                   | 0.47                             | 0.54              | (7)      |                                 |            |         |
| Allowance for credit losses                               | \$ 2,061                         | \$ 2,715          | (24) %   |                                 |            |         |
| Allowance coverage ratio                                  | 2.67 %                           | 3.94 %            | (127)bps |                                 |            |         |
| Deposits  | \$ 252,387                       | \$ 249,815        | 1 %      |                                 |            |         |

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- (1) Average yield is calculated based on annualized interest income for the period divided by average loans during the period and does not include any allocations, such as funds transfer pricing.
- (2) Nonperforming assets primarily consist of nonperforming loans and repossessed assets. The total nonperforming asset rate is calculated based on total nonperforming assets divided by the combined period-end total loans held for investment and repossessed assets.
- \*\* Not meaningful.

Key factors affecting the results of our Consumer Banking business for the third quarter and first nine months of 2021 compared to the third quarter and first nine months of 2020, and changes in financial condition and credit performance between September 30, 2021 and December 31, 2020 include the following:

- **Net Interest Income:** Net interest income increased by \$255 million to \$2.2 billion in the third quarter of 2021 and increased by \$1.1 billion to \$6.3 billion in the first nine months of 2021 primarily driven by higher margins and deposits in our Retail Banking business as well as growth in our auto loan portfolio.
- **Non-Interest Income:** Non-interest income remained substantially flat at \$127 million in the third quarter of 2021. Non-interest income increased by \$82 million to \$412 million in the first nine months of 2021 primarily driven by growth in our auto loan portfolio and higher interchange fees from an increase in debit card purchase volume.
- **Provision for Credit Losses:** Provision for credit losses decreased by \$48 million to a benefit of \$91 million in the third quarter of 2021 driven by an allowance release primarily due to strong credit performance in our auto loan portfolio. Provision for credit losses decreased by \$2.2 billion to a benefit of \$523 million in the first nine months of 2021 resulting from allowance releases in 2021 due to continued strong credit performance, an improved economic outlook and auction price favorability, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic.
- **Non-Interest Expense:** Non-interest expense increased by \$175 million to \$1.2 billion in the third quarter of 2021 and increased by \$388 million to \$3.4 billion in the first nine months of 2021 primarily driven by increased marketing spend, growth in our auto loan portfolio, as well as continued investment in infrastructure and technology.
- **Loans Held for Investment:**
  - Period-end loans held for investment increased by \$8.2 billion to \$77.1 billion as of September 30, 2021 from December 31, 2020 primarily driven by growth in our auto loan portfolio due to higher originations.
  - Average loans held for investment increased by \$8.2 billion to \$76.0 billion in the third quarter of 2021 compared to the third quarter of 2020 and increased by \$7.2 billion to \$72.7 billion in the first nine months of 2021 compared to the first nine months of 2020 primarily driven by growth in our auto loan portfolio due to higher originations.
- **Deposits:** Period-end deposits increased by \$2.6 billion to \$252.4 billion as of September 30, 2021 from December 31, 2020 primarily driven by increased consumer savings.
- **Net Charge-Off and Delinquency Metrics:** The net charge-off rate remained substantially flat at 0.27% in the third quarter of 2021 compared to the third quarter of 2020 and decreased by 75 basis points to 0.24% in the first nine months of 2021 compared to the first nine months of 2020 primarily driven by strong credit performance in our auto loan portfolio, including the impact of elevated auction prices.

The 30+ day delinquency rate decreased by 112 basis points to 3.88% as of September 30, 2021 from December 31, 2020 driven by lower delinquency inventories due to strong credit performance and growth in our auto loan portfolio.

## 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 earned from products and services provided to our clients such as capital markets and treasury management. Because our Commercial Banking business has loans and investments that generate tax-exempt income, tax credits or other tax benefits, we present the revenues on a taxable-equivalent basis. Expenses primarily consist of the provision for credit losses and operating costs.

Our Commercial Banking business generated net income from continuing operations of \$365 million and \$1.2 billion in the third quarter and first nine months of 2021, respectively, compared to net income of \$309 million in the third quarter of 2020 and net loss of \$220 million in the first nine months of 2020.

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

**Table 12: Commercial Banking Business Results**

| <i>(Dollars in millions, except as noted)</i>                | Three Months Ended September 30, |           |         | Nine Months Ended September 30, |           |         |
|--|----------------------------------|-----------|---------|---------------------------------|-----------|---------|
|  | 2021                             | 2020      | Change  | 2021                            | 2020      | Change  |
| <b>Selected income statement data:</b>                       |                                  |           |         |                                 |           |         |
| Net interest income  | \$ 578                           | \$ 517    | 12 %    | \$ 1,558                        | \$ 1,526  | 2 %     |
| Non-interest income  | 306                              | 237       | 29      | 803                             | 655       | 23      |
| Total net revenue <sup>(1)</sup>                             | 884                              | 754       | 17      | 2,361                           | 2,181     | 8       |
| Provision (benefit) for credit losses <sup>(2)</sup>         | (53)                             | (74)      | (28)    | (475)                           | 1,209     | **      |
| Non-interest expense   | 459                              | 424       | 8       | 1,295                           | 1,261     | 3       |
| Income (loss) from continuing operations before income taxes | 478                              | 404       | 18      | 1,541                           | (289)     | **      |
| Income tax provision (benefit)                               | 113                              | 95        | 19      | 364                             | (69)      | **      |
| Income (loss) from continuing operations, net of tax         | \$ 365                           | \$ 309    | 18      | \$ 1,177                        | \$ (220)  | **      |
| <b>Selected performance metrics:</b>                         |                                  |           |         |                                 |           |         |
| Average loans held for investment:                           |                                  |           |         |                                 |           |         |
| Commercial and multifamily real estate                       | \$ 30,314                        | \$ 30,918 | (2)     | \$ 30,100                       | \$ 31,239 | (4)     |
| Commercial and industrial                                    | 44,745                           | 45,404    | (1)     | 44,341                          | 46,264    | (4)     |
| Total commercial banking                                     | \$ 75,059                        | \$ 76,322 | (2)     | \$ 74,441                       | \$ 77,503 | (4)     |
| Average yield on loans held for investment <sup>(1)(3)</sup> | 2.77 %                           | 2.82 %    | (5)bps  | 2.75 %                          | 3.23 %    | (48)bps |
| Average deposits   | \$ 42,729                        | \$ 36,278 | 18 %    | \$ 41,725                       | \$ 34,391 | 21 %    |
| Average deposits interest rate                               | 0.15 %                           | 0.25 %    | (10)bps | 0.15 %                          | 0.47 %    | (32)bps |
| Net charge-offs  | \$ 9                             | \$ 82     | (89) %  | \$ 6                            | \$ 293    | (98) %  |
| Net charge-off rate  | 0.05 %                           | 0.43 %    | (38)bps | 0.01 %                          | 0.50 %    | (49)bps |

| <i>(Dollars in millions, except as noted)</i> | September 30, 2021 | December 31, 2020 | Change  |
|---|--------------------|-------------------|---------|
| <b>Selected period-end data:</b>              |                    |                   |         |
| Loans held for investment:                    |                    |                   |         |
| Commercial and multifamily real estate        | \$ 33,096          | \$ 30,681         | 8 %     |
| Commercial and industrial                     | 46,152             | 45,099            | 2       |
| Total commercial banking                      | \$ 79,248          | \$ 75,780         | 5       |
| Nonperforming loan rate                       | 0.76 %             | 0.86 %            | (10)bps |
| Nonperforming asset rate <sup>(4)</sup>       | 0.76               | 0.86              | (10)    |
| Allowance for credit losses <sup>(2)</sup>    | \$ 1,206           | \$ 1,658          | (27) %  |
| Allowance coverage ratio                      | 1.52 %             | 2.19 %            | (67)bps |
| Deposits                                      | \$ 43,347          | \$ 39,590         | 9 %     |
| Loans serviced for others                     | 47,393             | 44,162            | 7       |

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- (1) Some of our commercial investments generate tax-exempt income, tax credits or other tax benefits. Accordingly, we present our Commercial Banking revenue and yields on a taxable-equivalent basis, calculated using the federal statutory tax rate of 21% and state taxes where applicable, with offsetting reductions 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 is included in other liabilities on our consolidated balance sheets. Our reserve for unfunded lending commitments totaled \$166 million and \$195 million as of September 30, 2021 and December 31, 2020, respectively.
- (3) Average yield is calculated based on annualized interest income for the period divided by average loans during the period and does not include any allocations, such as funds transfer pricing.
- (4) Nonperforming assets consist of nonperforming loans 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 and other foreclosed assets.
- \*\* Not meaningful.

Key factors affecting the results of our Commercial Banking business for the third quarter and first nine months of 2021 compared to the third quarter and first nine months of 2020, and changes in financial condition and credit performance between September 30, 2021 and December 31, 2020 include the following:

- **Net Interest Income:** Net interest income increased by \$61 million to \$578 million in the third quarter of 2021 primarily driven by higher margins. Net interest income increased by \$32 million to \$1.6 billion in the first nine months of 2021 primarily driven by higher average deposit balances, partially offset by a one-time charge for unwinding the internal funding related to moving \$1.5 billion in loans to held for sale in the second quarter of 2021.
- **Non-Interest Income:** Non-interest income increased by \$69 million to \$306 million in the third quarter of 2021 and increased by \$148 million to \$803 million in the first nine months of 2021 driven by higher activity in our capital markets business.
- **Provision for Credit Losses:** Provision for credit losses was a benefit of \$53 million in the third quarter of 2021 resulting from an improvement in our energy loan portfolio, compared to a benefit of \$74 million in the third quarter of 2020 driven by an allowance release primarily due to lower loan balances. Provision for credit losses decreased by \$1.7 billion to a benefit of \$475 million in the first nine months of 2021 resulting from allowance releases due to an improved economic outlook and improvement in our energy loan portfolio, compared to allowance builds in 2020 driven by expectations of economic worsening at the start of the COVID-19 pandemic as well as credit deterioration in our energy loan portfolio.
- **Non-Interest Expense:** Non-interest expense increased by \$35 million to \$459 million in the third quarter of 2021 and increased by \$34 million to \$1.3 billion in the first nine months of 2021 primarily driven by continued investment in infrastructure and technology.
- **Loans Held for Investment:**
  - Period-end loans held for investment increased by \$3.5 billion to \$79.2 billion as of September 30, 2021 from December 31, 2020 driven by growth across our commercial loan portfolio.
  - Average loans held for investment decreased by \$1.3 billion to \$75.1 billion in the third quarter of 2021 compared to the third quarter of 2020 and decreased by \$3.1 billion to \$74.4 billion in the first nine months of 2021 compared to the first nine months of 2020 driven by higher utilization of credit lines in 2020 due to the COVID-19 pandemic.
- **Deposits:** Period-end deposits increased by \$3.8 billion to \$43.3 billion as of September 30, 2021 from December 31, 2020 primarily driven by elevated client liquidity.
- **Net Charge-Off and Nonperforming Metrics:** The net charge-off rate decreased by 38 basis points to 0.05% in the third quarter of 2021 driven by lower net charge-offs in our energy and real estate loan portfolios. The net charge-off rate decreased by 49 basis points to 0.01% in the first nine months of 2021 primarily driven by lower net charge-offs in our energy loan portfolio.

The nonperforming loan rate decreased by 10 basis points to 0.76% as of September 30, 2021 from December 31, 2020 driven by improvements in our energy loan portfolio, partially offset by isolated credit downgrades in our real estate portfolio.

## Other Category

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

- unallocated corporate revenue and expenses 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, such as certain restructuring charges;
- offsets related to certain line-item reclassifications;
- residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments; and
- foreign exchange-rate fluctuations on foreign currency-denominated balances.

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

**Table 13: Other Category Results**

| <i>(Dollars in millions)</i>                                 | Three Months Ended September 30, |          |        | Nine Months Ended September 30, |          |        |
|--|----------------------------------|----------|--------|---------------------------------|----------|--------|
|  | 2021                             | 2020     | Change | 2021                            | 2020     | Change |
| <b>Selected income statement data:</b>                       |                                  |          |        |                                 |          |        |
| Net interest loss  | \$ (201)                         | \$ (158) | 27 %   | \$ (336)                        | \$ (75)  | **     |
| Non-interest income (loss)                                   | (22)                             | 469      | **     | (164)                           | 392      | **     |
| Total net revenue (loss) <sup>(1)</sup>                      | (223)                            | 311      | **     | (500)                           | 317      | **     |
| Provision (benefit) for credit losses                        | —                                | (2)      | **     | (2)                             | 2        | **     |
| Non-interest expense   | 117                              | 110      | 6      | 349                             | 568      | (39)%  |
| Income (loss) from continuing operations before income taxes | (340)                            | 203      | **     | (847)                           | (253)    | **     |
| Income tax provision (benefit)                               | (140)                            | 316      | **     | (431)                           | (102)    | **     |
| Loss from continuing operations, net of tax                  | \$ (200)                         | \$ (113) | 77     | \$ (416)                        | \$ (151) | 175    |

<sup>(1)</sup> Some of our commercial investments generate tax-exempt income, tax credits or other tax benefits. Accordingly, we present our Commercial Banking revenue and yields on a taxable-equivalent basis, calculated using the federal statutory tax rate of 21% and state taxes where applicable, with offsetting reductions to the Other category.

\*\* Not meaningful.

Loss from continuing operations increased by \$87 million to a loss of \$200 million in the third quarter of 2021, primarily driven by the absence of a gain on our equity investment in Snowflake Inc. in the third quarter of 2020, partially offset by an increase in income tax benefit due to a change from pre-tax income in 2020 to pre-tax loss in 2021, and the relative impact of the tax credits.

Loss from continuing operations increased by \$265 million to a loss of \$416 million in the first nine months of 2021, primarily driven by the absence of a gain on our equity investment in Snowflake Inc. in the third quarter of 2020, and reduced funding needs of our business segments in the first nine months of 2021. These drivers were partially offset by an increase in income tax benefit due to a higher pre-tax loss and the relative impact of the tax credits, as well as lower legal reserve builds in non-interest expense.

## 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 2020 Form 10-K.

We have identified the following accounting estimates 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. Our critical accounting policies and estimates are as follows:

- Loan loss reserves
- Asset impairment
- Fair value of financial instruments
- Customer rewards reserve

We evaluate our critical accounting estimates and judgments on an ongoing basis and update them as necessary, based on changing conditions. There have been no changes to our critical accounting policies and estimates described in our December 31, 2020 Form 10-K under “MD&A—Critical Accounting Policies and Estimates.”

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## ACCOUNTING CHANGES AND DEVELOPMENTS

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### Accounting Standards Issued but Not Adopted as of September 30, 2021

There were no relevant new accounting standards issued but not adopted as of September 30, 2021. See “Note 1—Summary of Significant Accounting Policies” for information on the accounting standards we adopted in 2021.

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## CAPITAL MANAGEMENT

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The level and composition of our capital are determined by multiple factors, including our consolidated regulatory capital requirements as described in more detail below 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, 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

The Company and the Banks are subject to the Basel III Capital Rules established by the Board of Governors of the Federal Reserve System (“Federal Reserve”) and the Office of the Comptroller of the Currency (“OCC”) respectively (the “Basel III Capital Rules”). The Basel III Capital Rules implement certain capital requirements published by the Basel Committee on Banking Supervision (“Basel Committee”), along with certain provisions of the Dodd-Frank Wall Street Reform and Consumer Protection Act of 2010 (“Dodd-Frank Act”) and other capital provisions.

Following the tailoring of the Basel III Capital Rules, the Company, as a bank holding company (“BHC”) with total consolidated assets of at least \$250 billion but less than \$700 billion and not exceeding any of the applicable risk-based thresholds, is a Category III institution.

The Banks, as subsidiaries of a Category III institution, are Category III banks. Moreover, the Banks, as insured depository institutions, are subject to prompt corrective action (“PCA”) capital regulations.

### Basel III and United States Capital Rules

Under the Basel III Capital Rules, we must maintain a minimum common equity Tier 1 (“CET1”) capital ratio of 4.5%, a Tier 1 capital ratio of 6.0%, and a total capital ratio of 8.0%, in each case in relation to risk-weighted assets. In addition, we must maintain a minimum leverage ratio of 4.0% and a minimum supplementary leverage ratio of 3.0%. We are also subject to the capital conservation buffer and countercyclical capital buffer requirements, as described below.

As a Category III institution, effective January 1, 2020, we are no longer subject to the Basel III Advanced Approaches framework and certain associated capital requirements, and we have elected to exclude certain elements of accumulated other comprehensive income (“AOCI”) from our regulatory capital as permitted for a Category III institution. We remain subject to

the countercyclical capital buffer requirement (which is currently set at 0%) and supplementary leverage ratio requirement of 3.0%.

Global systemically important banks (“G-SIBs”) that are based in the U.S. are subject to an additional CET1 capital requirement known as the G-SIB Surcharge. We are not a G-SIB based on the most recent available data and thus we are not subject to a G-SIB Surcharge.

### ***Stress Capital Buffer Rule***

The Basel III Capital Rules require banking institutions to maintain a capital conservation buffer, composed of CET1 capital, above the regulatory minimum ratios. The capital conservation buffer for BHCs was previously fixed at 2.5%. In March 2020, the Federal Reserve issued a final rule to implement the stress capital buffer requirement (the “Stress Capital Buffer Rule”). The stress capital buffer requirement is institution-specific and replaces the fixed 2.5% capital conservation buffer for BHCs.

Pursuant to the Stress Capital Buffer Rule, the Federal Reserve uses the results of its supervisory stress test to determine the size of a BHC’s stress capital buffer requirement. In particular, a BHC’s stress capital buffer requirement equals, subject to a floor of 2.5%, the sum of (i) the difference between the BHC’s starting CET1 capital ratio and its lowest projected CET1 capital ratio under the severely adverse scenario of the Federal Reserve’s supervisory stress test plus (ii) the ratio of the BHC’s projected four quarters of common stock dividends (for the fourth to seventh quarters of the planning horizon) to the projected risk-weighted assets for the quarter in which the BHC’s projected CET1 capital ratio reaches its minimum under the supervisory stress test.

Under the Stress Capital Buffer Rule framework, the Company’s “standardized approach capital conservation buffer” includes its stress capital buffer requirement (which will be recalibrated every year based on the Company’s supervisory stress test results), any G-SIB surcharge (which is not applicable to us) and the countercyclical capital buffer requirement (which is currently set at 0%). Any determination to increase the countercyclical capital buffer generally would be effective twelve months after the announcement of such an increase, unless the Federal Reserve, OCC and Federal Deposit Insurance Corporation (the “FDIC”), hereafter collectively referred to as the “Federal Banking Agencies”, set an earlier effective date.

Based on the Company’s 2020 supervisory stress testing results, the Company’s stress capital buffer requirement was 5.6% for the period from October 1, 2020 through September 30, 2021. Therefore, the Company’s minimum capital requirements plus the standardized approach capital conservation buffer for CET1 capital, Tier 1 capital and total capital ratios under the stress capital buffer framework were 10.1%, 11.6% and 13.6%, respectively, for the period from October 1, 2020 through September 30, 2021.

Based on the Company’s 2021 supervisory stress testing results, the Company’s stress capital buffer requirement for the period beginning on October 1, 2021 through September 30, 2022 is 2.5%. Therefore, the Company’s minimum capital requirements plus the standardized approach capital conservation buffer for CET1 capital, Tier 1 capital and total capital ratios under the stress capital buffer framework are 7.0%, 8.5% and 10.5%, respectively, for the period from October 1, 2021 through September 30, 2022.

The Stress Capital Buffer Rule does not apply to the Banks. The capital conservation buffer for the Banks continues to be fixed at 2.5%. Accordingly, each Bank’s minimum capital requirements plus its capital conservation buffer for CET1 capital, Tier 1 capital and total capital ratios are 7.0%, 8.5% and 10.5% respectively.

If we fail to maintain our capital ratios above the minimum capital requirements plus the applicable buffer requirements, we will face increasingly strict automatic limitations on capital distributions and discretionary bonus payments to certain executive officers.

As of September 30, 2021 and December 31, 2020, respectively, each of the Company and the Banks exceeded the minimum capital requirements and the buffer requirements applicable to them, and each of the Banks was “well capitalized” under PCA requirements.

### ***Market Risk Rule***

The “Market Risk Rule” supplements the Basel III Capital Rules by requiring institutions subject to the rule to adjust their risk-based capital ratios to reflect the market risk in their trading book. The Market Risk Rule generally applies to institutions with aggregate trading assets and liabilities equal to 10% or more of total assets or \$1 billion or more. As of September 30, 2021, the

Company and CONA are subject to the Market Risk Rule. See “MD&A—Market Risk Profile” below for additional information.

### **CECL Transition Rule**

The Federal Banking Agencies adopted a final rule (the “2020 CECL Transition Rule”) that provides banking institutions an optional five-year transition period to phase in the impact of the current expected credit loss (“CECL”) standard on their regulatory capital (the “2020 CECL Transition Election”).

Pursuant to the 2020 CECL Transition Rule, a banking institution may elect to delay the estimated impact of adopting CECL on its regulatory capital through December 31, 2021 and then phase in the estimated cumulative impact from January 1, 2022 through December 31, 2024. For the “day 2” ongoing impact of CECL during the initial two years, the Federal Banking Agencies use a uniform “scaling factor” of 25% as an approximation of the increase in the allowance under the CECL standard compared to the prior incurred loss methodology. Accordingly, from January 1, 2020 through December 31, 2021, electing banking institutions are permitted to add back to their regulatory capital an amount equal to the sum of the after-tax “day 1” CECL adoption impact and 25% of the increase in the allowance since the adoption of the CECL standard. Beginning January 1, 2022 through December 31, 2024, the after-tax “day 1” CECL adoption impact and the cumulative “day 2” ongoing impact will be phased in to regulatory capital at 25% per year. The following table summarizes the capital impact delay and phase in period on our regulatory capital from years 2020 to 2025.

|                                   | Capital Impact Delayed   |      | Phase In Period |               |               |                 |
|-----------------------------------|--|------|-----------------|---------------|---------------|-----------------|
|                                   | 2020   | 2021 | 2022            | 2023          | 2024          | 2025            |
| “Day 1” CECL adoption impact      | Capital impact delayed to 2022   |      |                 |               |               |                 |
| Cumulative “day 2” ongoing impact | 25% scaling factor as an approximation of the increase in allowance under CECL |      | 25% Phased In   | 50% Phased In | 75% Phased In | Fully Phased In |

We adopted the CECL standard (for accounting purposes) as of January 1, 2020, and made the 2020 CECL Transition Election (for regulatory capital purposes) in the first quarter of 2020. Therefore, the applicable amounts presented in this Report reflect such election.

For the description of the regulatory capital rules we are subject to, see “MD&A—Supervision and Regulation” in this Report as well as “Part I—Item 1. Business—Supervision and Regulation” in our 2020 Form 10-K.

Table 14 provides a comparison of our regulatory capital ratios under the Basel III Standardized Approach, the regulatory minimum capital adequacy ratios and the PCA well-capitalized level for each ratio, where applicable, as of September 30, 2021 and December 31, 2020.

**Table 14: Capital Ratios Under Basel III<sup>(1)(2)</sup>**

|   | September 30, 2021 |                          |                  | December 31, 2020 |                          |                  |
|---|--------------------|--------------------------|------------------|-------------------|--------------------------|------------------|
|   | Ratio              | Minimum Capital Adequacy | Well-Capitalized | Ratio             | Minimum Capital Adequacy | Well-Capitalized |
| <b>Capital One Financial Corp:</b>          |                    |                          |                  |                   |                          |                  |
| Common equity Tier 1 capital <sup>(3)</sup> | 13.8 %             | 4.5 %                    | N/A              | 13.7 %            | 4.5 %                    | N/A              |
| Tier 1 capital <sup>(4)</sup>               | 15.7               | 6.0                      | 6.0 %            | 15.3              | 6.0                      | 6.0 %            |
| Total capital <sup>(5)</sup>                | 18.2               | 8.0                      | 10.0             | 17.7              | 8.0                      | 10.0             |
| Tier 1 leverage <sup>(6)</sup>              | 12.2               | 4.0                      | N/A              | 11.2              | 4.0                      | N/A              |
| Supplementary leverage <sup>(7)(8)</sup>    | 10.4               | 3.0                      | N/A              | 10.7              | 3.0                      | N/A              |
| <b>COBNA:</b>                               |                    |                          |                  |                   |                          |                  |
| Common equity Tier 1 capital <sup>(3)</sup> | 18.3               | 4.5                      | 6.5              | 21.5              | 4.5                      | 6.5              |
| Tier 1 capital <sup>(4)</sup>               | 18.3               | 6.0                      | 8.0              | 21.5              | 6.0                      | 8.0              |
| Total capital <sup>(5)</sup>                | 19.9               | 8.0                      | 10.0             | 23.4              | 8.0                      | 10.0             |
| Tier 1 leverage <sup>(6)</sup>              | 16.1               | 4.0                      | 5.0              | 18.3              | 4.0                      | 5.0              |
| Supplementary leverage <sup>(7)</sup>       | 12.9               | 3.0                      | N/A              | 14.7              | 3.0                      | N/A              |
| <b>CONA:</b>                                |                    |                          |                  |                   |                          |                  |
| Common equity Tier 1 capital <sup>(3)</sup> | 11.7               | 4.5                      | 6.5              | 12.4              | 4.5                      | 6.5              |
| Tier 1 capital <sup>(4)</sup>               | 11.7               | 6.0                      | 8.0              | 12.4              | 6.0                      | 8.0              |
| Total capital <sup>(5)</sup>                | 12.9               | 8.0                      | 10.0             | 13.7              | 8.0                      | 10.0             |
| Tier 1 leverage <sup>(6)</sup>              | 7.6                | 4.0                      | 5.0              | 7.6               | 4.0                      | 5.0              |
| Supplementary leverage <sup>(7)</sup>       | 6.8                | 3.0                      | N/A              | 6.9               | 3.0                      | N/A              |

<sup>(1)</sup> Capital requirements that are not applicable are denoted by "N/A."

<sup>(2)</sup> Ratios as of September 30, 2021 are preliminary. As we continue to validate our data, the calculations are subject to change until we file our September 30, 2021 Form FR Y-9C—Consolidated Financial Statements for Holding Companies and Call Reports.

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

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

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

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

<sup>(7)</sup> Supplementary leverage ratio is a regulatory capital measure calculated based on Tier 1 capital divided by total leverage exposure.

<sup>(8)</sup> The Company's supplementary leverage ratio as of December 31, 2020 reflected the temporary exclusions of U.S Treasury securities and deposits at Federal Reserve Banks from the denominator of the supplementary leverage ratio. See "Part I—Item 1. Business—Supervision and Regulation—Capital and Liquidity Regulation" in our 2020 Form 10-K for additional details.

Table 15 presents regulatory capital under the Basel III Standardized Approach and regulatory capital metrics as of September 30, 2021 and December 31, 2020.

**Table 15: Regulatory Risk-Based Capital Components and Regulatory Capital Metrics**

| <i>(Dollars in millions)</i>                                    | September 30, 2021 | December 31, 2020 |
|---|--------------------|-------------------|
| <b>Regulatory Capital Under Basel III Standardized Approach</b> |                    |                   |
| Common equity excluding AOCI                                    | \$ 58,705          | \$ 55,299         |
| Adjustments:  |                    |                   |
| AOCI, net of tax <sup>(1)</sup>                                 | (33)               | (29)              |
| Goodwill, net of related deferred tax liabilities               | (14,435)           | (14,448)          |
| Intangible assets, net of related deferred tax liabilities      | (84)               | (86)              |
| Other <sup>(2)</sup>  | (15)               | —                 |
| Common equity Tier 1 capital                                    | 44,138             | 40,736            |
| Tier 1 capital instruments                                      | 5,911              | 4,847             |
| Tier 1 capital  | 50,049             | 45,583            |
| Tier 2 capital instruments                                      | 3,762              | 3,385             |
| Qualifying allowance for credit losses                          | 4,040              | 3,820             |
| Tier 2 capital  | 7,802              | 7,205             |
| Total capital   | \$ 57,851          | \$ 52,788         |
| <b>Regulatory Capital Metrics</b>                               |                    |                   |
| Risk-weighted assets  | \$ 318,729         | \$ 297,903        |
| Adjusted average assets   | 411,216            | 406,762           |
| Total leverage exposure   | 480,232            | 427,522           |

<sup>(1)</sup> Excludes certain components of AOCI as permitted under the Tailoring Rules.

<sup>(2)</sup> Includes deferred tax assets deducted from regulatory capital.

### Capital Planning and Regulatory Stress Testing

On June 24, 2021, the Federal Reserve released the results of its supervisory stress tests for the 2021 cycle. Based on the results, all participating BHCs, including the Company, remained above their risk-based minimum capital requirements in the hypothetical stress scenario. Accordingly, as laid out previously by the Federal Reserve, the temporary capital distribution restrictions put in place in the third quarter of 2020 following the outbreak of COVID-19 ended for all participating BHCs, including the Company, after the second quarter of 2021. All participating BHCs, including the Company, remain subject to the normal capital distribution restrictions of the stress capital buffer framework.

On January 25, 2021, our Board of Directors authorized the repurchase of up to \$7.5 billion of shares of our common stock. We repurchased approximately \$2.7 billion of shares of our common stock during the third quarter of 2021 and \$4.9 billion during the first nine months of 2021. On July 28, 2021, our Board of Directors authorized a special dividend of \$0.60 per share of common stock payable in the third quarter of 2021. In addition to the special dividend, the Board of Directors authorized an increase to our quarterly common stock dividend from \$0.40 per share to \$0.60 per share beginning with our dividend payable in the third quarter of 2021.

For the description of the regulatory capital planning rules we are subject to, see “MD&A—Supervision and Regulation” in this Report as well as “Part I—Item 1. Business—Supervision and Regulation” in our 2020 Form 10-K.

## Equity Offerings and Transactions

On May 4, 2021, we issued 27,000,000 depositary shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series L, \$0.01 par value, with a liquidation preference of \$25 per depositary share (“Series L Preferred Stock”). The net proceeds of the offering of Series L Preferred Stock were approximately \$653 million after deducting underwriting commissions and offering expenses. Dividends on the Series L Preferred Stock are payable quarterly in arrears at a rate of 4.375% per annum.

On June 10, 2021, we issued 1,000,000 shares of Fixed Rate Reset Non-Cumulative Perpetual Preferred Stock, Series M, \$0.01 par value, with a liquidation preference of \$1,000 per share (the “Series M Preferred Stock”). The net proceeds of the offering of Series M Preferred Stock were approximately \$988 million, after deducting underwriting commissions and offering expenses. Dividends on the Series M Preferred Stock are payable quarterly in arrears at a rate of 3.950% per annum through August 31, 2026. Effective September 1, 2026, and at every subsequent five-year anniversary, the dividend rate resets to the 5-Year Treasury Rate plus 3.157% per annum.

On July 29, 2021, we issued 17,000,000 depositary shares, each representing a 1/40th interest in a share of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series N, \$0.01 par value, with a liquidation preference of \$25 per depositary share (“Series N Preferred Stock”). The net proceeds of the offering of Series N Preferred Stock were approximately \$412 million after deducting underwriting commissions and offering expenses. Dividends on the Series N Preferred Stock are payable quarterly in arrears at a rate of 4.25% per annum.

On September 1, 2021, we redeemed all outstanding shares of our Fixed-to-Floating Rate Non-Cumulative Perpetual Preferred Stock, Series E for \$1.0 billion. The redemption reduced our net income available to common shareholders by \$12 million in the third quarter of 2021 as we recognized the previously deferred issuance costs associated with this series.

On October 18, 2021, we announced that we will redeem all outstanding shares of our Fixed Rate 5.20% Non-Cumulative Perpetual Preferred Stock, Series G, and our Fixed Rate 6.00% Non-Cumulative Perpetual Preferred Stock, Series H, on December 1, 2021 for an aggregate redemption price of \$1.1 billion. We expect these redemptions will reduce our net income available to common shareholders by approximately \$34 million in the fourth quarter of 2021 as we recognize the previously deferred issuance costs associated with these series. For additional information on the expected preferred stock dividends to be paid in the fourth quarter of 2021 and per quarter in 2022, see “MD&A—Executive Summary and Business Outlook—Business Outlook—Total Company Expectations” in this Report.

## Dividend Policy and Stock Purchases

In the first nine months of 2021, we declared and paid common stock dividends of \$897 million, or \$2.00 per share, and preferred stock dividends of \$200 million. The following table summarizes the dividends paid per share on our various preferred stock series in the first nine months of 2021.

**Table 16: Preferred Stock Dividends Paid Per Share**

| Series                        | Description                            | Issuance Date      | Per Annum Dividend Rate  | Dividend Frequency                                    | 2021           |         |         |
|-------------------------------|--|--------------------|--|---|----------------|---------|---------|
|                               |  |                    |  |   | Q3             | Q2      | Q1      |
| <b>Series E<sup>(1)</sup></b> | Fixed-to-Floating Rate Non-Cumulative  | May 14, 2015       | 5.550% through 5/31/2020; 3-mo. LIBOR + 380 bps thereafter   | Semi-Annually through 5/31/2020; Quarterly thereafter | <b>\$10.06</b> | \$10.20 | \$10.06 |
| <b>Series G</b>               | 5.200% Non-Cumulative                  | July 29, 2016      | 5.200%   | Quarterly   | <b>13.00</b>   | 13.00   | 13.00   |
| <b>Series H</b>               | 6.000% Non-Cumulative                  | November 29, 2016  | 6.000  | Quarterly   | <b>15.00</b>   | 15.00   | 15.00   |
| <b>Series I</b>               | 5.000% Non-Cumulative                  | September 11, 2019 | 5.000  | Quarterly   | <b>12.50</b>   | 12.50   | 12.50   |
| <b>Series J</b>               | 4.800% Non-Cumulative                  | January 31, 2020   | 4.800  | Quarterly   | <b>12.00</b>   | 12.00   | 12.00   |
| <b>Series K</b>               | 4.625% Non-Cumulative                  | September 17, 2020 | 4.625  | Quarterly   | <b>11.56</b>   | 11.56   | 11.56   |
| <b>Series L</b>               | 4.375% Non-Cumulative                  | May 4, 2021        | 4.375  | Quarterly   | <b>14.22</b>   | —       | —       |
| <b>Series M</b>               | 3.950% Fixed Rate Reset Non-Cumulative | June 10, 2021      | 3.950% through 8/31/2026; resets 9/1/2026 and every subsequent 5 year anniversary at 5-Year Treasury +3.157% | Quarterly   | <b>8.89</b>    | —       | —       |
| <b>Series N</b>               | 4.250% Non-Cumulative                  | July 29, 2021      | 4.250  | Quarterly   | —              | —       | —       |

<sup>(1)</sup> On September 1, 2021, we redeemed all outstanding shares of our preferred stock Series E.

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, regulatory requirements and other factors deemed relevant by the Board of Directors. As a BHC, our ability to pay dividends is largely dependent upon the receipt of dividends or other payments from our subsidiaries. The Banks are subject to regulatory restrictions that limit their ability to transfer funds to our BHC. As of September 30, 2021, funds available for dividend payments from COBNA and CONA were \$1.1 billion and \$715 million, respectively. There can be no assurance that we will declare and pay any dividends to stockholders.

On January 25, 2021, our Board of Directors authorized the repurchase of up to \$7.5 billion of shares of our common stock. We repurchased approximately \$2.7 billion of shares of our common stock during the third quarter of 2021 and \$4.9 billion during the first nine months of 2021.

The timing and exact amount of any future common stock repurchases will depend on various factors, including regulatory approval, 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 “MD&A—Capital Management—Capital Planning and Regulatory Stress Testing” and “Part I—Item 1. Business—Supervision and Regulation—Dividends, Stock Repurchases and Transfers of Funds” in our 2020 Form 10-K.

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## RISK MANAGEMENT

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### Risk Management Framework

Our Risk Management Framework (the “Framework”) sets consistent expectations for risk management across the Company. It also sets expectations for our “Three Lines of Defense” model, which defines the roles, responsibilities and accountabilities for taking and managing risk across the Company. Accountability for overseeing an effective Framework resides with our Board of Directors either directly or through its committees.

The “First Line of Defense” consists of any line of business or function that is accountable for risk taking and is responsible for: (i) engaging in activities designed to generate revenue or reduce expenses; (ii) providing operational support or servicing to any business function for the delivery of products or services to customers; or (iii) providing technology services in direct support of first line business areas. Each line of business or first line function is responsible for managing the risks associated with their activities, including identifying, assessing, measuring, monitoring, controlling and reporting the risks within its business activities, consistent with the risk framework. The “Second Line of Defense” consists of two types of functions: Independent Risk Management (“IRM”) and Support Functions. IRM oversees risk-taking activities and assesses risks and issues independent from the first line of defense. Support Functions are centers of specialized expertise (e.g., Human Resources, Accounting, Legal) that provide support services to the Company. The “Third Line of Defense” is comprised of the Internal Audit and Credit Review functions. The third line provides independent and objective assurance to senior management and to the Board of Directors that the first and second lines of defense have systems and governance processes which are well-designed and working as intended, and that the Framework is appropriate for our size, complexity and risk profile.

Our Framework consists of the following nine elements:



We provide additional discussion of our risk management principles, roles and responsibilities, framework and risk appetite under “MD&A—Risk Management” in our 2020 Form 10-K.

### **Risk Categories**

We apply our Framework to protect the Company from the major categories of risk that we are exposed to through our business activities. We have seven major categories of risk as noted below. We provide a description of these categories and how we manage them under “MD&A—Risk Management” in our 2020 Form 10-K.

- Compliance risk
- Credit risk
- Liquidity risk
- Market risk
- Operational risk
- Reputation risk
- Strategic risk

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### **CREDIT RISK PROFILE**

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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 ongoing credit and counterparty settlement risk, including purchasing securities for our investment securities portfolio, entering into derivative transactions to manage our market risk exposure and to accommodate customers, extending short-term advances on syndication activity including bridge financing transactions we have underwritten, depositing certain operational cash balances in other financial institutions, executing certain foreign exchange transactions and extending customer overdrafts. We provide additional information related to our investment securities portfolio under “MD&A—Consolidated Balance Sheets Analysis—Investment Securities” and credit risk related to derivative transactions in “Note 8—Derivative Instruments and Hedging Activities.”

## Portfolio Composition of Loans Held for Investment

We provide a variety of lending products. Our primary products include credit cards, auto 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 2020 Form 10-K.

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale. The information presented in this section excludes loans held for sale, which totaled \$6.3 billion and \$2.7 billion as of September 30, 2021 and December 31, 2020, respectively.

Table 17 presents the composition of our portfolio of loans held for investment by portfolio segment as of September 30, 2021 and December 31, 2020.

**Table 17: Portfolio Composition of Loans Held for Investment**

| <i>(Dollars in millions)</i>             | September 30, 2021 |            | December 31, 2020 |            |
|--|--------------------|------------|-------------------|------------|
|  | Loans              | % of Total | Loans             | % of Total |
| <b>Credit Card:</b>                      |                    |            |                   |            |
| Domestic credit card                     | \$ 99,258          | 38.0 %     | \$ 98,504         | 39.1 %     |
| International card businesses            | 5,772              | 2.2        | 8,452             | 3.4        |
| Total credit card                        | 105,030            | 40.2       | 106,956           | 42.5       |
| <b>Consumer Banking:</b>                 |                    |            |                   |            |
| Auto                                     | 74,716             | 28.6       | 65,762            | 26.2       |
| Retail banking <sup>(1)</sup>            | 2,396              | 0.9        | 3,126             | 1.2        |
| Total consumer banking                   | 77,112             | 29.5       | 68,888            | 27.4       |
| <b>Commercial Banking:<sup>(1)</sup></b> |                    |            |                   |            |
| Commercial and multifamily real estate   | 33,096             | 12.7       | 30,681            | 12.2       |
| Commercial and industrial                | 46,152             | 17.6       | 45,099            | 17.9       |
| Total commercial banking                 | 79,248             | 30.3       | 75,780            | 30.1       |
| Total loans held for investment          | \$ 261,390         | 100.0 %    | \$ 251,624        | 100.0 %    |

<sup>(1)</sup> Includes Paycheck Protection Program (“PPP”) loans of \$538 million and \$182 million in our retail and commercial loan portfolios, respectively, as of September 30, 2021 and \$919 million and \$238 million as of December 31, 2020, respectively.

## Geographic Composition

We market our credit card products throughout the United States, Canada and the United Kingdom. Our credit card loan portfolio is geographically diversified due to our product and marketing approach. The table below presents the geographic profile of our credit card loan portfolio as of September 30, 2021 and December 31, 2020.

**Table 18: Credit Card Portfolio by Geographic Region**

| <i>(Dollars in millions)</i>          | September 30, 2021 |            | December 31, 2020 |            |
|---------------------------------------|--------------------|------------|-------------------|------------|
|                                       | Amount             | % of Total | Amount            | % of Total |
| <b>Domestic credit card:</b>          |                    |            |                   |            |
| California                            | \$ 10,066          | 9.6 %      | \$ 9,943          | 9.3 %      |
| Texas                                 | 8,278              | 7.9        | 8,090             | 7.6        |
| Florida                               | 6,989              | 6.7        | 6,910             | 6.5        |
| New York                              | 6,384              | 6.1        | 6,327             | 5.9        |
| Pennsylvania                          | 4,147              | 3.9        | 4,158             | 3.9        |
| Illinois                              | 4,103              | 3.9        | 4,149             | 3.9        |
| Ohio                                  | 3,590              | 3.4        | 3,645             | 3.4        |
| New Jersey                            | 3,219              | 3.1        | 3,179             | 3.0        |
| Georgia                               | 3,099              | 3.0        | 3,046             | 2.8        |
| Michigan                              | 3,028              | 2.9        | 3,010             | 2.8        |
| Other                                 | 46,355             | 44.0       | 46,047            | 43.0       |
| Total domestic credit card            | 99,258             | 94.5       | 98,504            | 92.1       |
| <b>International card businesses:</b> |                    |            |                   |            |
| Canada                                | 2,947              | 2.8        | 5,728             | 5.4        |
| United Kingdom                        | 2,825              | 2.7        | 2,724             | 2.5        |
| Total international card businesses   | 5,772              | 5.5        | 8,452             | 7.9        |
| Total credit card                     | \$ 105,030         | 100.0 %    | \$ 106,956        | 100.0 %    |

Our auto loan portfolio is geographically diversified in the United States due to our product and marketing approach. Retail banking includes small business loans and other consumer lending products originated through our branch network. The table below presents the geographic profile of our auto loan and retail banking portfolios as of September 30, 2021 and December 31, 2020.

**Table 19: Consumer Banking Portfolio by Geographic Region**

| <i>(Dollars in millions)</i>  | September 30, 2021 |                | December 31, 2020 |                |
|-------------------------------|--------------------|----------------|-------------------|----------------|
|                               | Amount             | % of Total     | Amount            | % of Total     |
| <b>Auto:</b>                  |                    |                |                   |                |
| Texas                         | \$ 9,173           | 11.9 %         | \$ 8,207          | 11.9 %         |
| California                    | 8,896              | 11.5           | 7,573             | 11.0           |
| Florida                       | 6,354              | 8.2            | 5,544             | 8.1            |
| Georgia                       | 3,292              | 4.3            | 2,989             | 4.3            |
| Pennsylvania                  | 3,061              | 4.0            | 2,569             | 3.7            |
| Ohio                          | 3,051              | 4.0            | 2,770             | 4.0            |
| Illinois                      | 2,840              | 3.7            | 2,431             | 3.5            |
| New York                      | 2,510              | 3.3            | 2,267             | 3.3            |
| Other                         | 35,539             | 46.0           | 31,412            | 45.7           |
| <b>Total auto</b>             | <b>74,716</b>      | <b>96.9</b>    | <b>65,762</b>     | <b>95.5</b>    |
| <b>Retail banking:</b>        |                    |                |                   |                |
| New York                      | 830                | 1.1            | 1,081             | 1.6            |
| Louisiana                     | 471                | 0.6            | 634               | 0.9            |
| Texas                         | 459                | 0.6            | 576               | 0.8            |
| New Jersey                    | 170                | 0.2            | 222               | 0.3            |
| Maryland                      | 167                | 0.2            | 224               | 0.3            |
| Virginia                      | 125                | 0.2            | 179               | 0.3            |
| Other                         | 174                | 0.2            | 210               | 0.3            |
| <b>Total retail banking</b>   | <b>2,396</b>       | <b>3.1</b>     | <b>3,126</b>      | <b>4.5</b>     |
| <b>Total consumer banking</b> | <b>\$ 77,112</b>   | <b>100.0 %</b> | <b>\$ 68,888</b>  | <b>100.0 %</b> |

We originate commercial and multifamily real estate loans in most regions of the United States. The table below presents the geographic profile of our commercial real estate portfolio of September 30, 2021 and December 31, 2020.

**Table 20: Commercial Real Estate Portfolio by Region**

| <i>(Dollars in millions)</i>                   | September 30, 2021 |                 | December 31, 2020 |                 |
|--|--------------------|-----------------|-------------------|-----------------|
|  | Amount             | % of Total      | Amount            | % of Total      |
| <b>Geographic concentration:<sup>(1)</sup></b> |                    |                 |                   |                 |
| Northeast                                      | \$ 15,590          | 47.10 %         | \$ 17,290         | 56.35 %         |
| South  | 5,460              | 16.50           | 3,806             | 12.40           |
| Pacific West                                   | 5,086              | 15.37           | 3,424             | 11.16           |
| Mid-Atlantic                                   | 3,462              | 10.46           | 3,344             | 10.90           |
| Midwest  | 2,351              | 7.10            | 1,993             | 6.50            |
| Mountain                                       | 1,147              | 3.47            | 824               | 2.69            |
| <b>Total</b>                                   | <b>\$ 33,096</b>   | <b>100.00 %</b> | <b>\$ 30,681</b>  | <b>100.00 %</b> |

<sup>(1)</sup> 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, RI and VT. South consists of AL, AR, FL, GA, KY, LA, MS, NC, OK, SC, TN and TX. Pacific West consists of AK, CA, HI, OR and WA. Mid-Atlantic consists of DC, DE, MD, VA and WV. Midwest consists of IA, IL, IN, KS, MI, MN, MO, ND, NE, OH, SD and WI. Mountain consists of AZ, CO, ID, MT, NM, NV, UT and WY.

## Commercial Loans by Industry

Table 21 summarizes our commercial loans held for investment portfolio by industry classification as of September 30, 2021 and December 31, 2020. Industry classifications below are based on our interpretation of the North American Industry Classification System codes as they pertain to each individual loan.

**Table 21: Commercial Loans by Industry**

| <i>(Percentage of portfolio)</i> | September 30, 2021 | December 31, 2020 |
|----------------------------------|--------------------|-------------------|
| <b>Industry Classification:</b>  |                    |                   |
| Real estate                      | 36 %               | 39 %              |
| Finance                          | 24                 | 17                |
| Healthcare                       | 9                  | 11                |
| Business services                | 6                  | 6                 |
| Educational services             | 4                  | 5                 |
| Public administration            | 4                  | 4                 |
| Construction and land            | 3                  | 3                 |
| Retail trade                     | 3                  | 3                 |
| Oil and gas                      | 2                  | 3                 |
| Other                            | 9                  | 9                 |
| Total                            | <u>100 %</u>       | <u>100 %</u>      |

## Credit Risk Measurement

We closely monitor economic conditions and loan performance trends to assess and manage our exposure to credit risk. Trends in delinquency rates are the key credit quality indicator for our credit card and retail banking loan portfolios as changes in delinquency rates can provide an early warning of changes in potential future credit losses. The key indicator we monitor when assessing the credit quality and risk of our auto loan portfolio is borrower credit scores as they provide insight into borrower risk profiles, which give indications of potential future credit losses. The key credit quality indicator for our commercial loan portfolios is our internal risk ratings as we generally classify loans that have been delinquent for an extended period of time and other loans with significant risk of loss as nonperforming. In addition to these credit quality indicators, we also manage and monitor other credit quality metrics such as level of nonperforming loans and net charge-off rates.

We underwrite most consumer loans using proprietary models, which typically include credit bureau data, such as borrower credit scores, 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.

Table 22 provides details on the credit scores of our domestic credit card and auto loan portfolios as of September 30, 2021 and December 31, 2020.

**Table 22: Credit Score Distribution**

| <i>(Percentage of portfolio)</i>                                 | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| <b>Domestic credit card—Refreshed FICO scores:<sup>(1)</sup></b> |                    |                   |
| Greater than 660   | 71 %               | 69 %              |
| 660 or below   | 29                 | 31                |
| Total  | <b>100 %</b>       | 100 %             |
| <b>Auto—At origination FICO scores:<sup>(2)</sup></b>            |                    |                   |
| Greater than 660   | 49 %               | 46 %              |
| 621 - 660  | 20                 | 20                |
| 620 or below   | 31                 | 34                |
| Total  | <b>100 %</b>       | 100 %             |

<sup>(1)</sup> Percentages represent period-end loans held for investment in each credit score category. 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.

<sup>(2)</sup> Percentages represent period-end loans held for investment in each credit score category. 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. See “Note 3—Loans” for additional credit quality information and see “Note 1—Summary of Significant Accounting Policies” for information on our accounting policies for delinquent and nonperforming loans, charge-offs and troubled debt restructurings (“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 each balance sheet 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 all loans held for investment 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 these 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 2020 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 in “MD&A—Business Segment Financial Performance.”

Table 23 presents our 30+ day performing delinquency rates and 30+ day delinquency rates of our portfolio of loans held for investment, by portfolio segment, as of September 30, 2021 and December 31, 2020.

**Table 23: 30+ Day Delinquencies**

| <i>(Dollars in millions)</i>           | September 30, 2021               |                     |                       |                     | December 31, 2020                |                     |                       |                     |
|--|----------------------------------|---------------------|-----------------------|---------------------|----------------------------------|---------------------|-----------------------|---------------------|
|  | 30+ Day Performing Delinquencies |                     | 30+ Day Delinquencies |                     | 30+ Day Performing Delinquencies |                     | 30+ Day Delinquencies |                     |
|  | Amount                           | Rate <sup>(1)</sup> | Amount                | Rate <sup>(1)</sup> | Amount                           | Rate <sup>(1)</sup> | Amount                | Rate <sup>(1)</sup> |
| <b>Credit Card:</b>                    |                                  |                     |                       |                     |                                  |                     |                       |                     |
| Domestic credit card                   | \$ 1,912                         | 1.93 %              | \$ 1,912              | 1.93 %              | \$ 2,388                         | 2.42 %              | \$ 2,388              | 2.42 %              |
| International card businesses          | 189                              | 3.27                | 193                   | 3.35                | 221                              | 2.61                | 234                   | 2.77                |
| Total credit card                      | <u>2,101</u>                     | <u>2.00</u>         | <u>2,105</u>          | <u>2.00</u>         | <u>2,609</u>                     | <u>2.44</u>         | <u>2,622</u>          | <u>2.45</u>         |
| <b>Consumer Banking:</b>               |                                  |                     |                       |                     |                                  |                     |                       |                     |
| Auto                                   | 2,730                            | 3.65                | 2,946                 | 3.94                | 3,140                            | 4.78                | 3,381                 | 5.14                |
| Retail banking                         | 27                               | 1.15                | 49                    | 2.05                | 41                               | 1.32                | 62                    | 1.99                |
| Total consumer banking                 | <u>2,757</u>                     | <u>3.58</u>         | <u>2,995</u>          | <u>3.88</u>         | <u>3,181</u>                     | <u>4.62</u>         | <u>3,443</u>          | <u>5.00</u>         |
| <b>Commercial Banking:</b>             |                                  |                     |                       |                     |                                  |                     |                       |                     |
| Commercial and multifamily real estate | 6                                | 0.02                | 123                   | 0.37                | 202                              | 0.66                | 341                   | 1.11                |
| Commercial and industrial              | 282                              | 0.61                | 344                   | 0.75                | 84                               | 0.19                | 158                   | 0.35                |
| Total commercial banking               | <u>288</u>                       | <u>0.36</u>         | <u>467</u>            | <u>0.59</u>         | <u>286</u>                       | <u>0.38</u>         | <u>499</u>            | <u>0.66</u>         |
| Total                                  | <u>\$ 5,146</u>                  | <u>1.97</u>         | <u>\$ 5,567</u>       | <u>2.13</u>         | <u>\$ 6,076</u>                  | <u>2.41</u>         | <u>\$ 6,564</u>       | <u>2.61</u>         |

<sup>(1)</sup> Delinquency rates are calculated by dividing delinquency amounts by period-end loans held for investment for each specified loan category.

Table 24 presents our 30+ day delinquent loans, by aging and geography, as of September 30, 2021 and December 31, 2020.

**Table 24: Aging and Geography of 30+ Day Delinquent Loans**

| <i>(Dollars in millions)</i> | September 30, 2021 |                     | December 31, 2020 |                     |
|------------------------------|--------------------|---------------------|-------------------|---------------------|
|                              | Amount             | Rate <sup>(1)</sup> | Amount            | Rate <sup>(1)</sup> |
| <b>Delinquency status:</b>   |                    |                     |                   |                     |
| 30 – 59 days                 | \$ 2,993           | 1.14 %              | \$ 3,330          | 1.32 %              |
| 60 – 89 days                 | 1,379              | 0.53                | 1,485             | 0.59                |
| ≥ 90 days                    | 1,195              | 0.46                | 1,749             | 0.70                |
| Total                        | <u>\$ 5,567</u>    | <u>2.13 %</u>       | <u>\$ 6,564</u>   | <u>2.61 %</u>       |
| <b>Geographic region:</b>    |                    |                     |                   |                     |
| Domestic                     | \$ 5,374           | 2.06 %              | \$ 6,330          | 2.52 %              |
| International                | 193                | 0.07                | 234               | 0.09                |
| Total                        | <u>\$ 5,567</u>    | <u>2.13 %</u>       | <u>\$ 6,564</u>   | <u>2.61 %</u>       |

<sup>(1)</sup> Delinquency rates are calculated by dividing delinquency amounts by total period-end loans held for investment.

Table 25 summarizes loans that were 90+ days delinquent as to interest or principal, and still accruing interest as of September 30, 2021 and December 31, 2020. 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, 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.

**Table 25: 90+ Day Delinquent Loans Accruing Interest**

| <i>(Dollars in millions)</i> | September 30, 2021 |                     | December 31, 2020 |                     |
|------------------------------|--------------------|---------------------|-------------------|---------------------|
|                              | Amount             | Rate <sup>(1)</sup> | Amount            | Rate <sup>(1)</sup> |
| <b>Loan category:</b>        |                    |                     |                   |                     |
| Credit card                  | \$ 915             | 0.87 %              | \$ 1,251          | 1.17 %              |
| Commercial banking           | 7                  | 0.01                | 51                | 0.07                |
| Total                        | <u>\$ 922</u>      | <u>0.35</u>         | <u>\$ 1,302</u>   | <u>0.52</u>         |
| <b>Geographic region:</b>    |                    |                     |                   |                     |
| Domestic                     | \$ 848             | 0.33 %              | \$ 1,220          | 0.50 %              |
| International                | 74                 | 1.28                | 82                | 0.97                |
| Total                        | <u>\$ 922</u>      | <u>0.35</u>         | <u>\$ 1,302</u>   | <u>0.52</u>         |

<sup>(1)</sup> Delinquency rates are calculated by dividing delinquency amounts by period-end loans held for investment for each specified loan category.

### Nonperforming Loans and Nonperforming Assets

Nonperforming assets consist of nonperforming loans, repossessed assets and other foreclosed assets. Nonperforming loans include loans that have been placed on nonaccrual status. See “Note 1—Summary of Significant Accounting Policies” in our 2020 Form 10-K for information on our policies for classifying loans as nonperforming for each of our loan categories.

Table 26 presents our nonperforming loans, by portfolio segment, and other nonperforming assets as of September 30, 2021 and December 31, 2020. We do not classify loans held for sale as nonperforming. We provide additional information on our credit quality metrics in “MD&A—Business Segment Financial Performance.”

**Table 26: Nonperforming Loans and Other Nonperforming Assets<sup>(1)</sup>**

| (Dollars in millions)   | September 30, 2021 |        | December 31, 2020 |        |
|---|--------------------|--------|-------------------|--------|
|   | Amount             | Rate   | Amount            | Rate   |
| <b>Nonperforming loans held for investment:<sup>(2)</sup></b> |                    |        |                   |        |
| <b>Credit Card:</b>   |                    |        |                   |        |
| International card businesses                                 | \$ 9               | 0.16 % | \$ 21             | 0.24 % |
| Total credit card   | 9                  | 0.01   | 21                | 0.02   |
| <b>Consumer Banking:</b>                                      |                    |        |                   |        |
| Auto  | 270                | 0.36   | 294               | 0.45   |
| Retail banking  | 53                 | 2.20   | 30                | 0.96   |
| Total consumer banking  | 323                | 0.42   | 324               | 0.47   |
| <b>Commercial Banking:</b>                                    |                    |        |                   |        |
| Commercial and multifamily real estate                        | 287                | 0.87   | 200               | 0.65   |
| Commercial and industrial                                     | 314                | 0.68   | 450               | 1.00   |
| Total commercial banking                                      | 601                | 0.76   | 650               | 0.86   |
| Total nonperforming loans held for investment <sup>(3)</sup>  | \$ 933             | 0.35   | \$ 995            | 0.40   |
| Other nonperforming assets <sup>(4)</sup>                     | 42                 | 0.02   | 45                | 0.01   |
| Total nonperforming assets                                    | \$ 975             | 0.37   | \$ 1,040          | 0.41   |

<sup>(1)</sup> We recognized interest income for loans classified as nonperforming of \$21 million and \$22 million in the first nine months of 2021 and 2020, respectively. Interest income foregone related to nonperforming loans was \$40 million and \$40 million in the first nine months of 2021 and 2020, respectively. Foregone interest income represents the amount of interest income in excess of recognized 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.

<sup>(2)</sup> 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.

<sup>(3)</sup> Excluding the impact of domestic credit card loans, nonperforming loans as a percentage of total loans held for investment was 0.58% and 0.65% as of September 30, 2021 and December 31, 2020, respectively.

<sup>(4)</sup> The denominators used in calculating nonperforming asset rates consist of total loans held for investment and other nonperforming assets.

## Net Charge-Offs

Net charge-offs consist of the amortized cost basis, excluding accrued interest, 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 credit losses when we determine the loan is uncollectible and record subsequent recoveries of previously charged off amounts as increases to the allowance for credit 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 as incurred and included in our consolidated statements of income as a component of other non-interest expense. Our charge-off policy for loans varies based on the loan type. See “Note 1—Summary of Significant Accounting Policies” in our 2020 Form 10-K for information on our charge-off policy for each of our loan categories.

Table 27 presents our net charge-off amounts and rates, by portfolio segment, in the third quarter and first nine months of 2021 and 2020.

**Table 27: Net Charge-Offs (Recoveries)**

| (Dollars in millions)                  | Three Months Ended September 30, |                     |            |                     | Nine Months Ended September 30, |                     |            |                     |
|--|----------------------------------|---------------------|------------|---------------------|---------------------------------|---------------------|------------|---------------------|
|  | 2021                             |                     | 2020       |                     | 2021                            |                     | 2020       |                     |
|  | Amount                           | Rate <sup>(1)</sup> | Amount     | Rate <sup>(1)</sup> | Amount                          | Rate <sup>(1)</sup> | Amount     | Rate <sup>(1)</sup> |
| <b>Credit Card:</b>                    |                                  |                     |            |                     |                                 |                     |            |                     |
| Domestic credit card                   | \$ 327                           | 1.36 %              | \$ 885     | 3.64 %              | \$ 1,436                        | 2.05 %              | \$ 3,359   | 4.31 %              |
| International card businesses          | 39                               | 2.72                | 58         | 2.89                | 134                             | 2.45                | 231        | 3.71                |
| Total credit card                      | 366                              | 1.43                | 943        | 3.58                | 1,570                           | 2.08                | 3,590      | 4.26                |
| <b>Consumer Banking:</b>               |                                  |                     |            |                     |                                 |                     |            |                     |
| Auto                                   | 34                               | 0.18                | 36         | 0.23                | 90                              | 0.17                | 445        | 0.95                |
| Retail banking                         | 17                               | 2.45                | 12         | 1.38                | 41                              | 1.82                | 41         | 1.80                |
| Total consumer banking                 | 51                               | 0.27                | 48         | 0.28                | 131                             | 0.24                | 486        | 0.99                |
| <b>Commercial Banking:</b>             |                                  |                     |            |                     |                                 |                     |            |                     |
| Commercial and multifamily real estate | 1                                | 0.01                | 32         | 0.41                | 9                               | 0.04                | 39         | 0.17                |
| Commercial and industrial              | 8                                | 0.07                | 50         | 0.45                | (3)                             | (0.01)              | 254        | 0.73                |
| Total commercial banking               | 9                                | 0.05                | 82         | 0.43                | 6                               | 0.01                | 293        | 0.50                |
| Total net charge-offs                  | \$ 426                           | 0.67                | \$ 1,073   | 1.72                | \$ 1,707                        | 0.92                | \$ 4,369   | 2.28                |
| Average loans held for investment      | \$ 253,101                       |                     | \$ 249,511 |                     | \$ 247,867                      |                     | \$ 255,232 |                     |

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

## 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 repossession or foreclosure of collateral.

Guidance issued by the Federal Banking Agencies and contained in the Coronavirus Aid, Relief, and Economic Security Act (the “CARES Act”) provides banking organizations with TDR relief for loan modifications to current borrowers impacted by the COVID-19 pandemic. The majority of enrollments in our COVID-19 programs through September 30, 2021 would generally not have resulted in TDR classification under our existing policies as the concession granted was insignificant. We consider the impact of all loan modifications, including those classified as TDRs and those offered in response to the COVID-19 pandemic, when estimating the credit quality of our loan portfolio and establishing allowance levels.

Table 28 presents our amortized cost of loans modified in TDRs as of September 30, 2021 and December 31, 2020, which excludes loan modifications that do not meet the definition of a TDR and loans that received relief under the guidance issued by the Federal Banking Agencies and contained in the CARES Act in response to the COVID-19 pandemic.

**Table 28: Troubled Debt Restructurings**

| <i>(Dollars in millions)</i>  | September 30, 2021 |                          | December 31, 2020 |                          |
|-------------------------------|--------------------|--------------------------|-------------------|--------------------------|
|                               | Amount             | % of Total Modifications | Amount            | % of Total Modifications |
| <b>Credit Card:</b>           |                    |                          |                   |                          |
| Domestic credit card          | \$ 412             | 24.2 %                   | \$ 511            | 24.5 %                   |
| International card businesses | 179                | 10.5                     | 217               | 10.4                     |
| Total credit card             | 591                | 34.7                     | 728               | 34.9                     |
| <b>Consumer banking:</b>      |                    |                          |                   |                          |
| Auto                          | 600                | 35.2                     | 615               | 29.5                     |
| Retail banking                | 12                 | 0.7                      | 18                | 0.9                      |
| Total consumer banking        | 612                | 35.9                     | 633               | 30.4                     |
| <b>Commercial banking</b>     | <b>500</b>         | <b>29.4</b>              | <b>723</b>        | <b>34.7</b>              |
| Total                         | \$ 1,703           | 100.0 %                  | \$ 2,084          | 100.0 %                  |
| <b>Status of TDRs:</b>        |                    |                          |                   |                          |
| Performing                    | \$ 1,357           | 79.7 %                   | \$ 1,718          | 82.4 %                   |
| Nonperforming                 | 346                | 20.3                     | 366               | 17.6                     |
| Total                         | \$ 1,703           | 100.0 %                  | \$ 2,084          | 100.0 %                  |

In our 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, generally resulting in any loan outstanding reflected in the appropriate delinquency category and charged off in accordance with our standard charge-off policy.

In our 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 these concessions. 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. Impairment is determined using the present value of expected cash flows or a collateral evaluation for certain auto loans where the collateral value is lower than the amortized cost.

In our 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 3—Loans.”

### Allowance for Credit Losses and Reserve for Unfunded Lending Commitments

Our allowance for credit losses represents management’s current estimate of expected credit losses over the contractual terms of our loans held for investment as of each balance sheet date. Expected recoveries of amounts previously charged off or expected to be charged off are recognized within the allowance. We also estimate expected credit losses related to unfunded lending commitments that are not unconditionally cancellable. 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. We provide additional information on the methodologies and key assumptions used in determining our allowance for credit losses in “Note 1—Summary of Significant Accounting Policies” in our 2020 Form 10-K.

Table 29 presents changes in our allowance for credit losses and reserve for unfunded lending commitments for the third quarter and first nine months of 2021 and 2020, and details by portfolio segment for the provision for credit losses, charge-offs and recoveries.

**Table 29: Allowance for Credit Losses and Reserve for Unfunded Lending Commitments Activity**

| (Dollars in millions)  | Three Months Ended September 30, 2021 |                               |                   |                  |                |                        |                 |                    |       |
|--|---------------------------------------|-------------------------------|-------------------|------------------|----------------|------------------------|-----------------|--------------------|-------|
|  | Credit Card                           |                               |                   | Consumer Banking |                |                        |                 | Commercial Banking | Total |
|  | Domestic Card                         | International Card Businesses | Total Credit Card | Auto             | Retail Banking | Total Consumer Banking |                 |                    |       |
| <b>Allowance for credit losses:</b>                            |                                       |                               |                   |                  |                |                        |                 |                    |       |
| Balance as of June 30, 2021                                    | \$ 8,489                              | \$ 384                        | \$ 8,873          | \$ 2,122         | \$ 81          | \$ 2,203               | \$ 1,270        | \$ 12,346          |       |
| Charge-offs  | (658)                                 | (77)                          | (735)             | (244)            | (20)           | (264)                  | (20)            | (1,019)            |       |
| Recoveries <sup>(1)</sup>                                      | 331                                   | 38                            | 369               | 210              | 3              | 213                    | 11              | 593                |       |
| Net charge-offs  | (327)                                 | (39)                          | (366)             | (34)             | (17)           | (51)                   | (9)             | (426)              |       |
| Provision (benefit) for credit losses                          | (200)                                 | 2                             | (198)             | (100)            | 9              | (91)                   | (55)            | (344)              |       |
| Allowance build (release) for credit losses                    | (527)                                 | (37)                          | (564)             | (134)            | (8)            | (142)                  | (64)            | (770)              |       |
| Other changes <sup>(4)</sup>                                   | 6                                     | (9)                           | (3)               | —                | —              | —                      | —               | (3)                |       |
| Balance as of September 30, 2021                               | <u>7,968</u>                          | <u>338</u>                    | <u>8,306</u>      | <u>1,988</u>     | <u>73</u>      | <u>2,061</u>           | <u>1,206</u>    | <u>11,573</u>      |       |
| <b>Reserve for unfunded lending commitments:</b>               |                                       |                               |                   |                  |                |                        |                 |                    |       |
| Balance as of June 30, 2021                                    | —                                     | —                             | —                 | —                | —              | —                      | 164             | 164                |       |
| Provision (benefit) for losses on unfunded lending commitments | —                                     | —                             | —                 | —                | —              | —                      | 2               | 2                  |       |
| Balance as of September 30, 2021                               | <u>—</u>                              | <u>—</u>                      | <u>—</u>          | <u>—</u>         | <u>—</u>       | <u>—</u>               | <u>166</u>      | <u>166</u>         |       |
| <b>Combined allowance and reserve as of September 30, 2021</b> | <u>\$ 7,968</u>                       | <u>\$ 338</u>                 | <u>\$ 8,306</u>   | <u>\$ 1,988</u>  | <u>\$ 73</u>   | <u>\$ 2,061</u>        | <u>\$ 1,372</u> | <u>\$ 11,739</u>   |       |

| (Dollars in millions)  | Nine Months Ended September 30, 2021 |                               |                   |                  |                |                        |                    |                  |
|--|--------------------------------------|-------------------------------|-------------------|------------------|----------------|------------------------|--------------------|------------------|
|  | Credit Card                          |                               |                   | Consumer Banking |                |                        | Commercial Banking | Total            |
|  | Domestic Card                        | International Card Businesses | Total Credit Card | Auto             | Retail Banking | Total Consumer Banking |                    |                  |
| <b>Allowance for credit losses:</b>                            |                                      |                               |                   |                  |                |                        |                    |                  |
| Balance as of December 31, 2020                                | \$ 10,650                            | \$ 541                        | \$ 11,191         | \$ 2,615         | \$ 100         | \$ 2,715               | \$ 1,658           | \$ 15,564        |
| Charge-offs  | (2,436)                              | (259)                         | (2,695)           | (813)            | (53)           | (866)                  | (47)               | (3,608)          |
| Recoveries <sup>(1)</sup>                                      | 1,000                                | 125                           | 1,125             | 723              | 12             | 735                    | 41                 | 1,901            |
| Net charge-offs  | (1,436)                              | (134)                         | (1,570)           | (90)             | (41)           | (131)                  | (6)                | (1,707)          |
| Provision (benefit) for credit losses                          | (1,252)                              | (73)                          | (1,325)           | (537)            | 14             | (523)                  | (446)              | (2,294)          |
| Allowance build (release) for credit losses                    | (2,688)                              | (207)                         | (2,895)           | (627)            | (27)           | (654)                  | (452)              | (4,001)          |
| Other changes <sup>(4)</sup>                                   | 6                                    | 4                             | 10                | —                | —              | —                      | —                  | 10               |
| Balance as of September 30, 2021                               | <u>7,968</u>                         | <u>338</u>                    | <u>8,306</u>      | <u>1,988</u>     | <u>73</u>      | <u>2,061</u>           | <u>1,206</u>       | <u>11,573</u>    |
| <b>Reserve for unfunded lending commitments:</b>               |                                      |                               |                   |                  |                |                        |                    |                  |
| Balance as of December 31, 2020                                | —                                    | —                             | —                 | —                | —              | —                      | 195                | 195              |
| Provision (benefit) for losses on unfunded lending commitments | —                                    | —                             | —                 | —                | —              | —                      | (29)               | (29)             |
| Balance as of September 30, 2021                               | <u>—</u>                             | <u>—</u>                      | <u>—</u>          | <u>—</u>         | <u>—</u>       | <u>—</u>               | <u>166</u>         | <u>166</u>       |
| <b>Combined allowance and reserve as of September 30, 2021</b> | <u>\$ 7,968</u>                      | <u>\$ 338</u>                 | <u>\$ 8,306</u>   | <u>\$ 1,988</u>  | <u>\$ 73</u>   | <u>\$ 2,061</u>        | <u>\$ 1,372</u>    | <u>\$ 11,739</u> |

| (Dollars in millions)  | Three Months Ended September 30, 2020 |                               |                   |                  |                |                        |                    |                  |
|--|---------------------------------------|-------------------------------|-------------------|------------------|----------------|------------------------|--------------------|------------------|
|  | Credit Card                           |                               |                   | Consumer Banking |                |                        | Commercial Banking | Total            |
|  | Domestic Card                         | International Card Businesses | Total Credit Card | Auto             | Retail Banking | Total Consumer Banking |                    |                  |
| <b>Allowance for credit losses:</b>                            |                                       |                               |                   |                  |                |                        |                    |                  |
| Balance as of June 30, 2020                                    | \$ 11,569                             | \$ 522                        | \$ 12,091         | \$ 2,726         | \$ 112         | \$ 2,838               | \$ 1,903           | \$ 16,832        |
| Charge-offs  | (1,198)                               | (98)                          | (1,296)           | (280)            | (15)           | (295)                  | (88)               | (1,679)          |
| Recoveries <sup>(1)</sup>                                      | 313                                   | 40                            | 353               | 244              | 3              | 247                    | 6                  | 606              |
| Net charge-offs  | (885)                                 | (58)                          | (943)             | (36)             | (12)           | (48)                   | (82)               | (1,073)          |
| Provision (benefit) for credit losses                          | 378                                   | 72                            | 450               | (43)             | —              | (43)                   | (51)               | 356              |
| Allowance build (release) for credit losses                    | (507)                                 | 14                            | (493)             | (79)             | (12)           | (91)                   | (133)              | (717)            |
| Other changes <sup>(2)</sup>                                   | —                                     | 14                            | 14                | —                | —              | —                      | —                  | 14               |
| Balance as of September 30, 2020                               | <u>11,062</u>                         | <u>550</u>                    | <u>11,612</u>     | <u>2,647</u>     | <u>100</u>     | <u>2,747</u>           | <u>1,770</u>       | <u>16,129</u>    |
| <b>Reserve for unfunded lending commitments:</b>               |                                       |                               |                   |                  |                |                        |                    |                  |
| Balance as of June 30, 2020                                    | —                                     | —                             | —                 | —                | —              | —                      | 218                | 218              |
| Provision (benefit) for losses on unfunded lending commitments | —                                     | —                             | —                 | —                | —              | —                      | (23)               | (23)             |
| Balance as of September 30, 2020                               | <u>—</u>                              | <u>—</u>                      | <u>—</u>          | <u>—</u>         | <u>—</u>       | <u>—</u>               | <u>195</u>         | <u>195</u>       |
| <b>Combined allowance and reserve as of September 30, 2020</b> | <u>\$ 11,062</u>                      | <u>\$ 550</u>                 | <u>\$ 11,612</u>  | <u>\$ 2,647</u>  | <u>\$ 100</u>  | <u>\$ 2,747</u>        | <u>\$ 1,965</u>    | <u>\$ 16,324</u> |

|  | Nine Months Ended September 30, 2020 |                               |                   |                  |                |                        |                    |                  |
|--|--------------------------------------|-------------------------------|-------------------|------------------|----------------|------------------------|--------------------|------------------|
|  | Credit Card                          |                               |                   | Consumer Banking |                |                        | Commercial Banking | Total            |
|  | Domestic Card                        | International Card Businesses | Total Credit Card | Auto             | Retail Banking | Total Consumer Banking |                    |                  |
| <i>(Dollars in millions)</i>                                   |                                      |                               |                   |                  |                |                        |                    |                  |
| <b>Allowance for credit losses:</b>                            |                                      |                               |                   |                  |                |                        |                    |                  |
| Balance as of December 31, 2019                                | \$ 4,997                             | \$ 398                        | \$ 5,395          | \$ 984           | \$ 54          | \$ 1,038               | \$ 775             | \$ 7,208         |
| Cumulative effects from adoption of the CECL standard          | 2,237                                | 4                             | 2,241             | 477              | 25             | 502                    | 102                | 2,845            |
| Finance charge and fee reserve reclassification <sup>(3)</sup> | 439                                  | 23                            | 462               | —                | —              | —                      | —                  | 462              |
| Balance as of January 1, 2020                                  | 7,673                                | 425                           | 8,098             | 1,461            | 79             | 1,540                  | 877                | 10,515           |
| Charge-offs  | (4,406)                              | (351)                         | (4,757)           | (1,155)          | (52)           | (1,207)                | (303)              | (6,267)          |
| Recoveries <sup>(1)</sup>                                      | 1,047                                | 120                           | 1,167             | 710              | 11             | 721                    | 10                 | 1,898            |
| Net charge-offs  | (3,359)                              | (231)                         | (3,590)           | (445)            | (41)           | (486)                  | (293)              | (4,369)          |
| Provision (benefit) for credit losses                          | 6,748                                | 348                           | 7,096             | 1,631            | 62             | 1,693                  | 1,186              | 9,975            |
| Allowance build (release) for credit losses                    | 3,389                                | 117                           | 3,506             | 1,186            | 21             | 1,207                  | 893                | 5,606            |
| Other changes <sup>(2)</sup>                                   | —                                    | 8                             | 8                 | —                | —              | —                      | —                  | 8                |
| Balance as of September 30, 2020                               | 11,062                               | 550                           | 11,612            | 2,647            | 100            | 2,747                  | 1,770              | 16,129           |
| <b>Reserve for unfunded lending commitments:</b>               |                                      |                               |                   |                  |                |                        |                    |                  |
| Balance as of December 31, 2019                                | —                                    | —                             | —                 | —                | 5              | 5                      | 130                | 135              |
| Cumulative effects from adoption of the CECL standard          | —                                    | —                             | —                 | —                | (5)            | (5)                    | 42                 | 37               |
| Balance as of January 1, 2020                                  | —                                    | —                             | —                 | —                | —              | —                      | 172                | 172              |
| Provision (benefit) for losses on unfunded lending commitments | —                                    | —                             | —                 | —                | —              | —                      | 23                 | 23               |
| Balance as of September 30, 2020                               | —                                    | —                             | —                 | —                | —              | —                      | 195                | 195              |
| <b>Combined allowance and reserve as of September 30, 2020</b> | <b>\$ 11,062</b>                     | <b>\$ 550</b>                 | <b>\$ 11,612</b>  | <b>\$ 2,647</b>  | <b>\$ 100</b>  | <b>\$ 2,747</b>        | <b>\$ 1,965</b>    | <b>\$ 16,324</b> |

<sup>(1)</sup> The amount and timing of recoveries are impacted by our collection strategies, which are based on customer behavior and risk profile and include direct customer communications, repossession of collateral, the periodic sale of charged off loans as well as additional strategies, such as litigation.

<sup>(2)</sup> Represents foreign currency translation adjustments.

<sup>(3)</sup> Concurrent with our adoption of the CECL standard in the first quarter of 2020, we reclassified our finance charge and fee reserve to our allowance for credit losses, with a corresponding increase to credit card loans held for investment.

<sup>(4)</sup> Represents foreign currency translation adjustments and an initial allowance for purchased credit-deteriorated loans of \$6 million.

Allowance coverage ratios are calculated based on the allowance for credit losses for each specified portfolio segment divided by period-end loans held for investment within the specified loan category, as defined below. Table 30 presents the allowance coverage ratios as of September 30, 2021 and December 31, 2020.

**Table 30: Allowance Coverage Ratios for Specified Loan Category**

| <i>(Dollars in millions)</i> | September 30, 2021          |                       |                          | December 31, 2020           |                       |                          |
|------------------------------|-----------------------------|-----------------------|--------------------------|-----------------------------|-----------------------|--------------------------|
|                              | Allowance for Credit Losses | Amount <sup>(1)</sup> | Allowance Coverage Ratio | Allowance for Credit Losses | Amount <sup>(1)</sup> | Allowance Coverage Ratio |
| Credit Card                  | \$ 8,306                    | \$ 2,105              | 394.50 %                 | \$ 11,191                   | \$ 2,622              | 426.80 %                 |
| Consumer Banking             | 2,061                       | 2,995                 | 68.83                    | 2,715                       | 3,443                 | 78.85                    |
| Commercial Banking           | 1,206                       | 601                   | 200.51                   | 1,658                       | 650                   | 254.97                   |
| Total                        | <u>\$ 11,573</u>            | <u>261,390</u>        | <u>4.43</u>              | <u>\$ 15,564</u>            | <u>251,624</u>        | <u>6.19</u>              |

<sup>(1)</sup> Represents period-end 30+ day delinquent loans for our credit card and consumer banking loan portfolios, nonperforming loans for our commercial banking loan portfolio and total loans held for investment for the total ratio.

Our allowance for credit losses decreased by \$4.0 billion to \$11.6 billion, and our allowance coverage ratio decreased by 176 basis points to 4.43% as of September 30, 2021 from December 31, 2020, driven by strong credit performance and improved economic outlook.

## 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. In addition to our cash and cash equivalents, we maintain reserves in the form of investment securities and certain loans that are either readily-marketable or pledgeable.

Table 31 below presents the composition of our liquidity reserves as of September 30, 2021 and December 31, 2020.

**Table 31: Liquidity Reserves**

| <i>(Dollars in millions)</i>                                     | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| Cash and cash equivalents  | \$ 26,624          | \$ 40,509         |
| Investment securities available for sale, at fair value          | 98,149             | 100,445           |
| FHLB borrowing capacity secured by loans                         | 7,852              | 10,162            |
| Outstanding FHLB advances and letters of credit secured by loans | (41)               | (72)              |
| Investment securities encumbered for Public Funds and others     | (8,191)            | (7,052)           |
| Total liquidity reserves   | <u>\$ 124,393</u>  | <u>\$ 143,992</u> |

Our liquidity reserves decreased by \$19.6 billion to \$124.4 billion as of September 30, 2021 from December 31, 2020 primarily driven by a decrease in cash and cash equivalents. See “MD&A—Risk Management” in our 2020 Form 10-K for additional information on our management of liquidity risk.

### **Liquidity Coverage Ratio**

We are subject to the liquidity coverage ratio (“LCR”) standard as implemented by the Federal Reserve and OCC (the “LCR Rule”). The LCR Rule requires us to calculate our LCR daily. It also requires the Company to publicly disclose, on a quarterly basis, its LCR, certain related quantitative liquidity metrics, and a qualitative discussion of its LCR. Our average LCR during the third quarter of 2021 was 143%, which exceeded the LCR Rule requirement of 100%. 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 2020 Form 10-K for additional information.

### **Net Stable Funding Ratio**

In October 2020, the Federal Banking Agencies finalized a rule to implement the Net Stable Funding Ratio in the United States (the “NSFR Rule”). The NSFR Rule requires the Company and each of the Banks to maintain an amount of available stable funding, which is a weighted measure of a company’s funding sources over a one-year time horizon, calculated by applying standardized weightings to equity and liabilities based on their expected stability, that is no less than the amount of required stable funding, which is calculated by applying standardized weightings to assets, derivatives exposures and certain other items based on their liquidity characteristics. As a Category III institution, the Company and the Banks are required to maintain available stable funding in an amount at least equal to 85% of its required stable funding. The NSFR Rule became effective on July 1, 2021 and applies to the Company and each of the Banks. The NSFR Rule includes a semi-annual disclosure requirement, with the first public disclosure required after June 30, 2023.

### **Borrowing Capacity**

We maintain a shelf registration with the U.S. Securities and Exchange Commission (“SEC”) so that we may periodically offer and sell an indeterminate aggregate amount of senior or subordinated debt securities, preferred stock, depository 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. In addition, we also maintain a shelf registration that allows us to periodically offer and sell up to \$25 billion of securitized debt obligations from our credit card loan securitization trust and a shelf registration that allows us to periodically offer and sell up to \$20 billion from our auto loan securitization trusts.

In addition to our issuance capacity under the shelf registration statements, we also have access to FHLB advances and the Federal Reserve Discount Window. The ability to borrow utilizing these sources is based on membership status and the amount is dependent upon the Banks’ ability to post collateral. As of September 30, 2021, we pledged both loans and securities to the FHLB to secure a maximum borrowing capacity of \$18.8 billion, of which \$41 million was used. Our FHLB membership is supported by our investment in FHLB stock of \$32 million and \$30 million as of September 30, 2021 and December 31, 2020, respectively, which was determined in part based on our outstanding advances. As of September 30, 2021, we pledged loans to secure a borrowing capacity of \$19.9 billion under the Federal Reserve Discount Window. Our membership with the Federal Reserve is supported by our investment in Federal Reserve stock, which totaled \$1.3 billion as of both September 30, 2021 and December 31, 2020.

### **Funding**

Our primary source of funding comes from deposits, as they are a stable and relatively low cost source of funding. In addition to deposits, we raise funding through the issuance of senior and subordinated notes and securitized debt obligations, federal funds purchased, securities loaned or sold under agreements to repurchase and FHLB advances secured by certain portions of our loan and securities portfolios. A key objective in our use of these markets is to maintain access to a diversified mix of wholesale funding sources. See “MD&A—Consolidated Balance Sheets Analysis—Funding Sources Composition” for additional information on our primary sources of funding.

## Deposits

Table 32 provides a comparison of average balances, interest expense and average deposits interest rates for the third quarter and first nine months of 2021 and 2020.

**Table 32: Deposits Composition and Average Deposits Interest Rates**

| <i>(Dollars in millions)</i>                      | Three Months Ended September 30, |                  |                                |                 |                  |                                |
|---|----------------------------------|------------------|--------------------------------|-----------------|------------------|--------------------------------|
|   | 2021                             |                  |                                | 2020            |                  |                                |
|   | Average Balance                  | Interest Expense | Average Deposits Interest Rate | Average Balance | Interest Expense | Average Deposits Interest Rate |
| Interest-bearing checking accounts <sup>(1)</sup> | \$ 45,511                        | \$ 19            | 0.17 %                         | \$ 38,115       | \$ 25            | 0.26 %                         |
| Saving deposits <sup>(2)</sup>                    | 202,955                          | 156              | 0.30                           | 196,575         | 287              | 0.58                           |
| Time deposits less than \$100,000                 | 14,796                           | 42               | 1.12                           | 26,626          | 112              | 1.67                           |
| Total interest-bearing core deposits              | 263,262                          | 217              | 0.33                           | 261,316         | 424              | 0.65                           |
| Time deposits of \$100,000 or more                | 6,016                            | 11               | 0.70                           | 15,023          | 52               | 1.40                           |
| Total interest-bearing deposits                   | \$ 269,278                       | \$ 228           | 0.34                           | \$ 276,339      | \$ 476           | 0.69                           |
|   | Nine Months Ended September 30,  |                  |                                |                 |                  |                                |
|   | 2021                             |                  |                                | 2020            |                  |                                |
| <i>(Dollars in millions)</i>                      | Average Balance                  | Interest Expense | Average Deposits Interest Rate | Average Balance | Interest Expense | Average Deposits Interest Rate |
| Interest-bearing checking accounts <sup>(1)</sup> | \$ 44,153                        | \$ 56            | 0.17 %                         | \$ 36,201       | \$ 106           | 0.39 %                         |
| Saving deposits <sup>(2)</sup>                    | 203,127                          | 472              | 0.31                           | 179,643         | 1,085            | 0.81                           |
| Time deposits less than \$100,000                 | 17,136                           | 153              | 1.19                           | 27,477          | 407              | 1.98                           |
| Total interest-bearing core deposits              | 264,416                          | 681              | 0.34                           | 243,321         | 1,598            | 0.88                           |
| Time deposits of \$100,000 or more                | 7,606                            | 53               | 0.93                           | 16,310          | 220              | 1.81                           |
| Total interest-bearing deposits                   | \$ 272,022                       | \$ 734           | 0.36                           | \$ 259,631      | \$ 1,818         | 0.93                           |

<sup>(1)</sup> Includes negotiable order of withdrawal accounts.

<sup>(2)</sup> Includes money market deposit accounts.

The FDIC limits the acceptance of brokered deposits to well-capitalized insured depository institutions and, with a waiver from the FDIC, to adequately-capitalized institutions. COBNA and CONA were well-capitalized, as defined under the federal banking regulatory guidelines, as of September 30, 2021 and December 31, 2020, respectively. See “Part I—Item 1. Business—Supervision and Regulation” in our 2020 Form 10-K for additional information. We provide additional information on the composition of deposits in “MD&A—Consolidated Balance Sheets Analysis—Funding Sources Composition” and in “Note 7—Deposits and Borrowings.”

### 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 certain of our investment securities, multifamily real estate loans and commercial real estate loans.

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, securities loaned or sold under agreements to repurchase, increased by \$157 million to \$825 million as of September 30, 2021 from December 31, 2020 driven by an increase in repurchase agreement activity.

Our long-term debt, which primarily consists of securitized debt obligations and senior and subordinated notes, decreased by \$3.2 billion to \$36.7 billion as of September 30, 2021 from December 31, 2020 primarily driven by redemptions of our senior debt, partially offset by the issuance of subordinated debt. We provide more information on our securitization activity in “Note 5—Variable Interest Entities and Securitizations.”

The following table summarizes issuances of securitized debt obligations, senior and subordinated notes and their respective maturities or redemptions for the third quarter and first nine months of 2021 and 2020.

**Table 33: Long-Term Funding**

| <i>(Dollars in millions)</i>  | Issuances                        |             | Maturities/Redemptions           |                 |
|-------------------------------|----------------------------------|-------------|----------------------------------|-----------------|
|                               | Three Months Ended September 30, |             | Three Months Ended September 30, |                 |
|                               | 2021                             | 2020        | 2021                             | 2020            |
| Securitized debt obligations  | \$ 3,000                         | \$ —        | \$ 865                           | \$ 2,159        |
| Senior and subordinated notes | 1,000                            | —           | 1,766                            | —               |
| <b>Total</b>                  | <b>\$ 4,000</b>                  | <b>\$ —</b> | <b>\$ 2,631</b>                  | <b>\$ 2,159</b> |

  

| <i>(Dollars in millions)</i>  | Issuances                       |                 | Maturities/Redemptions          |                  |
|-------------------------------|---------------------------------|-----------------|---------------------------------|------------------|
|                               | Nine Months Ended September 30, |                 | Nine Months Ended September 30, |                  |
|                               | 2021                            | 2020            | 2021                            | 2020             |
| Securitized debt obligations  | \$ 3,000                        | \$ 1,250        | \$ 2,638                        | \$ 5,752         |
| Senior and subordinated notes | 1,000                           | 4,000           | 3,851                           | 7,092            |
| <b>Total</b>                  | <b>\$ 4,000</b>                 | <b>\$ 5,250</b> | <b>\$ 6,489</b>                 | <b>\$ 12,844</b> |

### Credit Ratings

Our credit ratings impact our ability to access capital markets and our borrowing costs. Rating agencies assign their ratings based 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.

Table 34 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, 2021 and December 31, 2020.

**Table 34: Senior Long-Term Debt Credit Ratings**

|         | September 30, 2021                |       |      | December 31, 2020                 |       |      |
|---------|-----------------------------------|-------|------|-----------------------------------|-------|------|
|         | Capital One Financial Corporation | COBNA | CONA | Capital One Financial Corporation | COBNA | CONA |
| Moody's | Baa1                              | A3    | A3   | Baa1                              | Baa1  | Baa1 |
| S&P     | BBB                               | BBB+  | BBB+ | BBB                               | BBB+  | BBB+ |
| Fitch   | A-                                | A     | A    | A-                                | A-    | A-   |

As of October 25, 2021, Moody's Investors Service ("Moody's"), Standard & Poor's ("S&P") and Fitch Ratings ("Fitch") have our credit ratings on a stable outlook.

### MARKET RISK PROFILE

Market risk is the risk of economic loss in the value of our financial instruments due to changes in market factors. Our primary market risk exposures include interest rate risk, foreign exchange risk and commodity pricing risk. We are exposed to market risk primarily from the following operations and activities:

- Traditional banking activities of deposit gathering and lending;
- Asset/liability management activities including the management of investment securities, short-term and long-term borrowings and derivatives;
- Foreign operations in the U.K. and Canada within our Credit Card business; and
- Customer accommodation activities within our Commercial Banking business.

We have enterprise-wide risk management policies and limits, approved by our Board of Directors, which govern our market risk management activities. Our objective is to manage our exposure to market risk in accordance with these policies and limits based on prevailing market conditions and long-term expectations. We provide additional information below about our primary sources of market risk, our market risk management strategies and the measures that we use to evaluate these exposures.

### **Interest Rate Risk**

Interest rate risk represents exposure to financial instruments whose values vary with the level or volatility of interest rates. We are exposed to interest rate risk primarily from the differences in the timing between the maturities or re-pricing of assets and liabilities. We manage our interest rate risk primarily by entering into interest rate swaps and other derivative instruments which could include caps, floors, options, futures and forward contracts.

We use various industry standard market risk measurement techniques and analyses to measure, assess and manage the impact of changes in interest rates on our net interest income and our economic value of equity and changes in foreign exchange rates on our non-dollar-denominated funding and non-dollar equity investments in foreign operations.

#### ***Net Interest Income Sensitivity***

Our net interest income sensitivity measure estimates the impact on our projected 12-month baseline net interest income resulting from movements in interest rates. 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 net interest income, we assume a hypothetical instantaneous parallel shift in the level of interest rates detailed in Table 35 below. At the current level of interest rates, our net interest income is expected to increase in higher rate scenarios and decrease modestly in lower rate scenarios. Our current sensitivity to upward shocks has decreased as compared to December 31, 2020, mainly due to the increase in long-term interest rates and a decrease in cash balance.

#### ***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 exposures, resulting from movements in interest rates. Our economic value of equity sensitivity measure is calculated based on our existing assets and liabilities, including derivatives, and does not incorporate business growth assumptions or projected balance sheet changes. Key assumptions used in the 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. 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 detailed in Table 35 below. Our current economic value of equity sensitivity profile demonstrates that our economic value of equity increases in higher interest rate scenarios, while decreasing in a lower interest rate scenario. Similar to the changes in net interest income sensitivity, our current economic value of equity sensitivity to upward shocks has also decreased as compared to December 31, 2020 mainly due to the increase in long term interest rates and a decrease in cash balance.

Table 35 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, 2021 and December 31, 2020. In instances where an interest rate scenario would result in a rate less than 0%, we assume a rate of 0% for that scenario. This assumption applies only to jurisdictions that do not have negative policy rates. In jurisdictions that have negative policy rates, we do not floor interest rates at 0%.

**Table 35: Interest Rate Sensitivity Analysis**

|   | September 30, 2021 | December 31, 2020 |
|---|--------------------|-------------------|
| Estimated impact on projected baseline net interest income: |                    |                   |
| +200 basis points   | 4.3 %              | 5.6 %             |
| +100 basis points   | 3.4                | 4.3               |
| +50 basis points  | 1.9                | 2.4               |
| -50 basis points  | (1.4)              | (0.9)             |
| Estimated impact on economic value of equity:               |                    |                   |
| +200 basis points   | 0.7                | 4.2               |
| +100 basis points   | 2.8                | 6.0               |
| +50 basis points  | 2.0                | 4.0               |
| -50 basis points  | (3.4)              | (7.0)             |

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

#### **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.

For further information on our interest rate exposures, see “Note 8—Derivative Instruments and Hedging Activities.”

#### **Foreign Exchange Risk**

Foreign exchange risk represents exposure to changes in the values of current holdings and future cash flows denominated in other currencies. We are exposed to foreign exchange risk primarily from the intercompany funding denominated in pound sterling (“GBP”) and the Canadian dollar (“CAD”) that we provide to our businesses in the U.K. and Canada and net equity investments in those businesses. We are also exposed to foreign exchange risk due to changes in the dollar-denominated value of future earnings and cash flows from our foreign operations and from our Euro (“EUR”)-denominated borrowings.

Our non-dollar denominated intercompany funding and EUR-denominated borrowings expose our earnings to foreign exchange transaction risk. We manage these transaction risks by using forward foreign currency derivatives and cross-currency swaps to hedge our exposures. We measure our foreign exchange transaction risk exposures by applying a 1% U.S. dollar appreciation shock against the value of the non-dollar denominated intercompany funding and EUR-denominated borrowings and their related hedges, which shows the impact to our earnings from foreign exchange risk. Our intercompany funding outstanding was 415 million GBP and 320 million GBP as of September 30, 2021 and December 31, 2020, respectively, and 4.7 billion CAD and 5.3 billion CAD as of September 30, 2021 and December 31, 2020, respectively. Our EUR-denominated borrowings outstanding were 1.3 billion EUR as of both September 30, 2021 and December 31, 2020.

Our non-dollar equity investments in foreign operations expose our balance sheet to translation risk in AOCI and our capital ratios. We manage our AOCI exposure by entering into foreign currency derivatives designated as net investment hedges. We measure these exposures by applying a 30% U.S. dollar appreciation shock, which we believe approximates a significant adverse shock over a one-year time horizon, against the value of the equity invested in our foreign operations net of related net investment hedges where applicable. Our gross equity exposures in our U.K. and Canadian operations were 1.8 billion GBP and 1.7 billion GBP as of September 30, 2021 and December 31, 2020, respectively, and 1.8 billion CAD and 1.5 billion CAD as of September 30, 2021 and December 31, 2020, respectively.

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

### **Risk related to Customer Accommodation Derivatives**

We offer interest rate, commodity and foreign currency derivatives as an accommodation to our customers within our Commercial Banking business. We offset the majority of the market risk of these customer accommodation derivatives by entering into offsetting derivatives transactions with other counterparties. We use value-at-risk (“VaR”) as the primary method to measure the market risk in our customer accommodation derivative activities on a daily basis. VaR is a statistical risk measure used to estimate the potential loss from movements observed in the recent 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 one business day. As a result of offsetting our customer exposures with other counterparties, we believe that our net exposure to market risk in our customer accommodation derivatives is minimal. For further information on our risk related to customer accommodation derivatives, see “Note 8—Derivative Instruments and Hedging Activities.”

### **London Interbank Offered Rate (“LIBOR”) Transition**

On July 27, 2017, the U.K. Financial Conduct Authority (“FCA”), the regulator for the administration of LIBOR, announced that LIBOR would be transitioned as an interest rate benchmark and that it will no longer compel banks to contribute LIBOR data beyond December 31, 2021.

On March 5, 2021, the ICE Benchmark Administration (“IBA”), the administrator of LIBOR, confirmed its intention to cease publication of the 1-week and 2-month USD LIBOR settings immediately following the LIBOR publication on December 31, 2021, and the remaining USD LIBOR tenors (overnight; 1, 3, 6, and 12 months) immediately following the LIBOR publication on June 30, 2023. The continuation of USD LIBOR as a representative rate into mid-2023 will allow many legacy USD LIBOR contracts to mature prior to cessation. Following IBA’s announcement, the FCA formally announced the future permanent cessation and loss of representativeness of LIBOR benchmarks.

In the U.S., the Secured Overnight Financing Rate (“SOFR”) has been selected as the preferred alternative rate for certain U.S. dollar derivative and cash instruments. While SOFR continues to be the industry recommended replacement rate for LIBOR, some market participants have begun using alternate rates featuring a credit-sensitive element. We are continuing to evaluate the different LIBOR alternatives and how their progression will impact our transition efforts.

We have exposures to LIBOR, including loans, derivative contracts, unsecured debt, securitizations, vendor agreements and other instruments with attributes that are either directly or indirectly dependent on LIBOR. To facilitate an orderly transition from LIBOR, we have established a company-wide, cross-functional initiative to oversee and manage our transition away from LIBOR and other Interbank Offered Rates (“IBORs”) to alternative reference rates.

We have made progress on our transition efforts as we continue to insert LIBOR transition language (“fallback language”) in new and existing lending contracts as well as in derivatives contracts and agreements that adheres to the International Swaps and Derivatives Association (“ISDA”) fallback protocol. Furthermore, we continue to originate loans and transact in instruments indexed to SOFR and other LIBOR replacement rates.

We also continue to focus our transition efforts on:

- monitoring market developments and managing our activities related to SOFR and other LIBOR replacement indexes;
- reviewing existing legal contracts and agreements and assessing fallback language impacts;
- monitoring and reducing our inventory of LIBOR exposures;
- building internal operational readiness and risk management processes, including exposure reporting;

- implementing necessary updates to our infrastructure including systems, models, valuation tools and processes; and
- engaging with our clients, industry working groups, and regulators.

For a further discussion of the various risks we face in connection with the expected replacement of LIBOR on our operations, see “Part I—Item 1A. Risk Factors—*Uncertainty regarding, and transition away from, LIBOR may adversely affect our business*” in our 2020 Form 10-K.

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## **SUPERVISION AND REGULATION**

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We provide information on our Supervision and Regulation in our 2020 Form 10-K under “Part I—Item 1. Business—Supervision and Regulation” and in our Quarterly Reports on Form 10-Q for the period ended March 31, 2021 and for the period ended June 30, 2021 under “Part I—Item 2. MD&A—Supervision and Regulation.”

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## **FORWARD-LOOKING STATEMENTS**

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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, capital allocation plans, accruals for claims in litigation and for other claims against us; earnings per share, efficiency ratio, operating efficiency ratio, 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.

Forward-looking statements often use words such as “will,” “anticipate,” “target,” “expect,” “estimate,” “intend,” “plan,” “goal,” “believe,” “forecast,” “outlook” or other words of similar meaning. 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. 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 2020 Form 10-K. You should carefully consider the factors discussed above, and in our Risk Factors or other disclosure, in evaluating these forward-looking statements.

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

- the impact of the COVID-19 pandemic and related public health measures on our business, financial condition and results of operations, including the increased estimation and forecast uncertainty as a result of the pandemic on our estimates of lifetime expected credit losses in our loan portfolios required in computing our allowance for credit losses;
- general economic and business conditions in our local markets, including conditions affecting employment levels, interest rates, tariffs, collateral values, consumer income, creditworthiness and confidence, spending and savings that may affect consumer bankruptcies, defaults, charge-offs and deposit activity;
- an increase or decrease in credit losses, or increased delinquencies, including increases due to a worsening of general economic conditions in the credit environment, and the impact of inaccurate estimates or inadequate reserves;
- compliance with new and existing laws, regulations and regulatory expectations including the implementation of a regulatory reform agenda;
- our ability to manage adequate capital or liquidity levels, which could have a negative impact on our financial results and our ability to return capital to our stockholders;
- the extensive use, reliability, disruption, and accuracy of the models and data we rely on;
- increased costs, reductions in revenue, reputational damage, legal liability and business disruptions that can result from data protection or privacy incidents or the theft, loss or misuse of information, including as a result of a cyber-attack;

- developments, changes or actions relating to any litigation, governmental investigation or regulatory enforcement action or matter involving us;
- the amount and rate of deposit growth and changes in deposit costs;
- our ability to execute on our strategic and operational plans;
- our response to competitive pressures;
- our business, financial condition and results of operations may be adversely affected by merchants' increasing focus on the fees charged by credit card networks and by legislation and regulation impacting such fees;
- our success in integrating acquired businesses and loan portfolios, and our ability to realize anticipated benefits from announced transactions and strategic partnerships;
- our ability to maintain a compliance, operational, technology and organizational infrastructure suitable for the nature of our business;
- the success of our marketing efforts in attracting and retaining customers;
- our risk management strategies;
- changes in the reputation of, or expectations regarding, the financial services industry or us with respect to practices, products or financial condition;
- increases or decreases in interest rates and uncertainty with respect to the interest rate environment, including the possibility of a prolonged low-interest rate environment or of negative interest rates;
- uncertainty regarding, and transition away from, the London Interbank Offered Rate;
- our ability to attract, retain and motivate skilled employees;
- our assumptions or estimates in our financial statements;
- limitations on our ability to receive dividends from our subsidiaries;
- the soundness of other financial institutions and other third parties; and
- other risk factors identified from time to time in our public disclosures, including in the reports that we file with the SEC.

We expect that the effects of the COVID-19 pandemic will heighten the risks associated with many of these factors.

**SUPPLEMENTAL TABLE**
**Reconciliation of Non-GAAP Measures**

The following non-GAAP measures consist of TCE, tangible assets and metrics computed using these amounts, which include tangible book value per common share, return on average tangible assets, return on average TCE and TCE ratio. We consider these metrics to be key financial performance measures that management uses in assessing capital adequacy and the level of returns generated. While these 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. The following table presents reconciliations of these non-GAAP measures to the applicable amounts measured in accordance with GAAP.

**Table A—Reconciliation of Non-GAAP Measures**
*(Dollars in millions, except as noted)*

|  | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| <b>Tangible Common Equity (Period-End):</b>        |                    |                   |
| Stockholders' equity                               | \$ 63,544          | \$ 60,204         |
| Goodwill and intangible assets <sup>(1)</sup>      | (14,766)           | (14,809)          |
| Noncumulative perpetual preferred stock            | (5,912)            | (4,847)           |
| Tangible common equity                             | <u>\$ 42,866</u>   | <u>\$ 40,548</u>  |
| <b>Tangible Common Equity (Quarterly Average):</b> |                    |                   |
| Stockholders' equity                               | \$ 64,682          | \$ 59,389         |
| Goodwill and intangible assets <sup>(1)</sup>      | (14,777)           | (14,824)          |
| Noncumulative perpetual preferred stock            | (6,452)            | (5,168)           |
| Tangible common equity                             | <u>\$ 43,453</u>   | <u>\$ 39,397</u>  |
| <b>Tangible Assets (Period-End):</b>               |                    |                   |
| Total assets                                       | \$ 425,377         | \$ 421,602        |
| Goodwill and intangible assets <sup>(1)</sup>      | (14,766)           | (14,809)          |
| Tangible assets                                    | <u>\$ 410,611</u>  | <u>\$ 406,793</u> |
| <b>Tangible Assets (Quarterly Average):</b>        |                    |                   |
| Total assets                                       | \$ 424,506         | \$ 420,011        |
| Goodwill and intangible assets <sup>(1)</sup>      | (14,777)           | (14,824)          |
| Tangible assets                                    | <u>\$ 409,729</u>  | <u>\$ 405,187</u> |
| <b>Non-GAAP Ratio:</b>                             |                    |                   |
| Tangible common equity ("TCE") <sup>(2)</sup>      | 10.4 %             | 10.0 %            |

<sup>(1)</sup> Includes impact of related deferred taxes.

<sup>(2)</sup> TCE ratio is a non-GAAP measure calculated based on TCE divided by tangible assets.

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## Glossary and Acronyms

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**Amortized cost:** The amount at which a financing receivable or investment is originated or acquired, adjusted for applicable accrued interest, accretion, or amortization of premium, discount, and net deferred fees or costs, collection of cash, write-offs, foreign exchange and fair value hedge accounting adjustments.

**Annual Report:** References to our “2020 Form 10-K” or “2020 Annual Report” are to our Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

**Banks:** Refers to COBNA and CONA.

**Basel Committee:** The Basel Committee on Banking Supervision.

**Basel III Advanced Approaches:** Following the Tailoring Rule, the Basel III Advanced Approaches was mandatory for Category I and II institutions. Category III institutions, such as us, are no longer subject to the Basel III Advanced Approaches framework effective January 1, 2020.

**Basel III Capital Rules:** The regulatory capital requirements established by the Federal Banking Agencies in July 2013 to implement 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 Rules modified Basel I to create the Basel III Standardized Approach.

**Capital One or the Company:** Capital One Financial Corporation and its subsidiaries.

**The Coronavirus Aid, Relief, and Economic Security Act (“CARES Act”):** Legislation signed into law on March 27, 2020. This law, among other things, authorized a number of lending programs to support the flow of credit to consumers and businesses and gave the banking organizations an option to temporarily suspend the determination of certain qualified loans modified as a result of COVID-19 as being TDRs, which was extended by the Consolidated Appropriations Act 2021.

**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, net of any related reserves. Loans held for sale are recorded at either fair value (if we elect the fair value option) or at the lower of cost or fair value.

**CECL:** In June 2016, the Financial Accounting Standards Board (“FASB”) issued Accounting Standards Update (“ASU”) No. 2016-13, Financial Instruments—Credit Losses (Topic 326): *Measurement of Credit Losses on Financial Instruments*. This ASU 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. This guidance was effective for us on January 1, 2020.

**COBNA:** Capital One Bank (USA), National Association, one of our fully owned subsidiaries, which offers credit card products along with other lending products and consumer services.

**Common equity Tier 1 (“CET1”) 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.

**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.

**Cybersecurity Incident:** The unauthorized access by an outside individual who obtained certain types of personal information relating to people who had applied for our credit card products and to our credit card customers that we announced on July 29, 2019.

**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.

**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, as amended.

**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.

**Foreign exchange contracts:** Contracts that provide for the future receipt or delivery of foreign currency at previously agreed-upon terms.

**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”).

**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 a Moody’s long-term rating of Baa3 or better; and/or a S&P long-term rating of BBB- or better; and/or a Fitch 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.

**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.

**LCR Rule:** In September 2014, the Federal Banking Agencies issued final rules implementing the Basel III Liquidity Coverage Ratio (“LCR”) in the United States. 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 the LCR Rule.

**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 securing the loan.

**Managed presentation:** A non-GAAP presentation of business segment results derived from our internal management accounting and reporting process, which employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenues and expenses directly or indirectly attributable to each business segment. The results of our individual businesses reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources and are intended to reflect each segment as if it were a stand-alone business.

**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 arrangements:** 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 servicing rights ("MSRs"):** 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 charge-off rate:** Represents (annualized) net charge-offs divided by average loans held for investment for the period. Negative net charge-offs and related rates are captioned as net recoveries.

**Net interest margin:** Represents (annualized) net interest income divided by average interest-earning assets for the period.

**NSFR Rule:** The Federal Banking Agencies issued a rule in October 2020 implementing the net stable funding ratio ("NSFR"). The NSFR measures the stability of our funding profile and requires us to maintain minimum amounts of stable funding to support our assets, commitments and derivatives exposures over a one-year period.

**Nonperforming loans:** Generally include loans that have been placed on nonaccrual status. We do not report loans classified as held for sale as nonperforming.

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

**Purchase volume:** Consists of purchase transactions, net of returns, for the period, and 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.

**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 associated with the realignment of resources supporting various businesses, primarily consisting of severance and related benefits pursuant to our ongoing benefit programs and impairment of certain assets related to business locations and activities being exited.

**Risk-weighted assets:** 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.

**Stress capital buffer:** A component of our new standardized approach capital conservation buffer, which will be recalibrated annually based on the results of our supervisory stress tests.

**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.

**Tailoring Rules:** In October 2019, the Federal Banking Agencies released final rules that provide for tailored application of certain capital, liquidity and stress-testing requirements across different categories of banking institutions. As a bank holding company with total consolidated assets of at least \$250 billion that does not exceed any of the applicable risk-based thresholds, we are a Category III institution under the Tailoring Rules.

**Tangible common equity:** 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 contractual terms of a loan agreement are modified by granting a concession to a borrower that is experiencing financial difficulty.

**Unfunded commitments:** Legally binding agreements to provide a defined level of financing until a specified future date.

**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.

**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

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**AML:** Anti-money laundering  
**ABS:** Asset-backed securities  
**AOCI:** Accumulated other comprehensive income  
**ARRC:** Alternative Reference Rates Committee  
**ASU:** Accounting Standards Update  
**ASC:** Accounting Standards Codification  
**ATM:** Automated teller machine  
**BHC:** Bank holding company  
**bps:** Basis points  
**CAD:** Canadian dollar  
**CARES:** Coronavirus Aid, Relief, and Economic Security  
**CCAR:** Comprehensive Capital Analysis and Review  
**CCP:** Central Counterparty Clearinghouse, or Central Clearinghouse  
**CDE:** Community development entities  
**CECL:** Current expected credit loss  
**CET1:** Common equity Tier 1 capital  
**CMBS:** Commercial mortgage-backed securities  
**CME:** Chicago Mercantile Exchange  
**COEP:** Capital One (Europe) plc  
**COF:** Capital One Financial Corporation  
**COVID-19:** Coronavirus disease of 2019  
**CVA:** Credit valuation adjustment  
**DVA:** Debit valuation adjustment  
**EUR:** Euro  
**Fannie Mae:** Federal National Mortgage Association  
**FASB:** Financial Accounting Standards Board  
**FCA:** U.K. Financial Conduct Authority  
**FCM:** Futures commission merchant  
**FDIC:** Federal Deposit Insurance Corporation  
**FHLB:** Federal Home Loan Banks  
**Fitch:** Fitch Ratings  
**FOS:** Financial Ombudsman Service  
**Freddie Mac:** Federal Home Loan Mortgage Corporation  
**GAAP:** Generally accepted accounting principles in the U.S.  
**GBP:** Pound sterling  
**Ginnie Mae:** Government National Mortgage Association  
**G-SIB:** Global systemically important banks  
**GSE or Agency:** Government-sponsored enterprise  
**IBA:** ICE Benchmark Administration  
**IBOR:** Interbank Offered Rate  
**IRM:** Independent Risk Management  
**LCH:** LCH Group

**LCR:** Liquidity coverage ratio  
**LIBOR:** London Interbank Offered Rate  
**MDL:** Multi-district litigation  
**Moody's:** Moody's Investors Service  
**MSRs:** Mortgage servicing rights  
**NSFR:** Net stable funding ratio  
**OCC:** Office of the Comptroller of the Currency  
**OTC:** Over-the-counter  
**PCA:** Prompt corrective action  
**PCI:** Purchased credit-impaired  
**PCCR:** Purchased credit card relationship  
**PPI:** Payment protection insurance  
**PPP:** Paycheck Protection Program  
**RMBS:** Residential mortgage-backed securities  
**RSU:** Restricted stock unit  
**S&P:** Standard & Poor's  
**SEC:** U.S. Securities and Exchange Commission  
**SOFR:** Secured Overnight Financing Rate  
**TCE:** Tangible common equity  
**TDR:** Troubled debt restructuring  
**U.K.:** United Kingdom  
**U.S.:** United States of America  
**VIE:** Variable interest entity  
**XBRL:** Extensible business reporting language

**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<br>September 30, |          | Nine Months Ended<br>September 30, |           |
|--|-------------------------------------|----------|------------------------------------|-----------|
|  | 2021                                | 2020     | 2021                               | 2020      |
| <b>Interest income:</b>  |                                     |          |                                    |           |
| Loans, including loans held for sale                                       | \$ 6,205                            | \$ 5,758 | \$ 17,812                          | \$ 18,120 |
| Investment securities  | 317                                 | 443      | 1,078                              | 1,455     |
| Other  | 16                                  | 14       | 48                                 | 67        |
| Total interest income  | 6,538                               | 6,215    | 18,938                             | 19,642    |
| <b>Interest expense:</b>   |                                     |          |                                    |           |
| Deposits   | 228                                 | 476      | 734                                | 1,818     |
| Securitized debt obligations   | 29                                  | 43       | 89                                 | 198       |
| Senior and subordinated notes  | 116                                 | 132      | 367                                | 551       |
| Other borrowings   | 9                                   | 9        | 27                                 | 35        |
| Total interest expense   | 382                                 | 660      | 1,217                              | 2,602     |
| Net interest income  | 6,156                               | 5,555    | 17,721                             | 17,040    |
| Provision (benefit) for credit losses                                      | (342)                               | 331      | (2,325)                            | 10,000    |
| Net interest income after provision for credit losses                      | 6,498                               | 5,224    | 20,046                             | 7,040     |
| <b>Non-interest income:</b>  |                                     |          |                                    |           |
| Interchange fees, net  | 1,022                               | 775      | 2,855                              | 2,199     |
| Service charges and other customer-related fees                            | 407                                 | 320      | 1,143                              | 905       |
| Net securities gains   | 2                                   | 25       | 6                                  | 25        |
| Other  | 243                                 | 706      | 592                                | 1,017     |
| Total non-interest income  | 1,674                               | 1,826    | 4,596                              | 4,146     |
| <b>Non-interest expense:</b>   |                                     |          |                                    |           |
| Salaries and associate benefits  | 1,852                               | 1,719    | 5,480                              | 5,050     |
| Occupancy and equipment  | 481                                 | 506      | 1,476                              | 1,546     |
| Marketing  | 751                                 | 283      | 1,872                              | 1,047     |
| Professional services  | 358                                 | 327      | 991                                | 918       |
| Communications and data processing   | 319                                 | 310      | 936                                | 920       |
| Amortization of intangibles  | 5                                   | 14       | 16                                 | 52        |
| Other  | 420                                 | 389      | 1,121                              | 1,514     |
| Total non-interest expense   | 4,186                               | 3,548    | 11,892                             | 11,047    |
| Income from continuing operations before income taxes                      | 3,986                               | 3,502    | 12,750                             | 139       |
| Income tax provision (benefit)   | 882                                 | 1,096    | 2,782                              | (10)      |
| Income from continuing operations, net of tax                              | 3,104                               | 2,406    | 9,968                              | 149       |
| Income (loss) from discontinued operations, net of tax                     | 0                                   | 0        | (3)                                | (1)       |
| <b>Net income</b>  | 3,104                               | 2,406    | 9,965                              | 148       |
| Dividends and undistributed earnings allocated to participating securities | (26)                                | (20)     | (84)                               | (5)       |
| Preferred stock dividends  | (79)                                | (67)     | (200)                              | (212)     |
| Issuance cost for redeemed preferred stock                                 | (12)                                | 0        | (12)                               | (22)      |
| <b>Net income (loss) available to common stockholders</b>                  | \$ 2,987                            | \$ 2,319 | \$ 9,669                           | \$ (91)   |
| <b>Basic earnings per common share:</b>                                    |                                     |          |                                    |           |
| Net income (loss) from continuing operations                               | \$ 6.81                             | \$ 5.07  | \$ 21.53                           | \$ (0.20) |
| Income (loss) from discontinued operations                                 | 0.00                                | 0.00     | (0.01)                             | 0.00      |
| Net income (loss) per basic common share                                   | \$ 6.81                             | \$ 5.07  | \$ 21.52                           | \$ (0.20) |
| <b>Diluted earnings per common share:</b>                                  |                                     |          |                                    |           |
| Net income (loss) from continuing operations                               | \$ 6.78                             | \$ 5.06  | \$ 21.45                           | \$ (0.20) |
| Income (loss) from discontinued operations                                 | 0.00                                | 0.00     | (0.01)                             | 0.00      |
| Net income (loss) per diluted common share                                 | \$ 6.78                             | \$ 5.06  | \$ 21.44                           | \$ (0.20) |

See Notes to Consolidated Financial Statements.

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

| <i>(Dollars in millions)</i>                           | Three Months Ended September 30, |          | Nine Months Ended September 30, |          |
|--|----------------------------------|----------|---------------------------------|----------|
|  | 2021                             | 2020     | 2021                            | 2020     |
| <b>Net income</b>                                      | \$ 3,104                         | \$ 2,406 | \$ 9,965                        | \$ 148   |
| <b>Other comprehensive income, net of tax:</b>         |                                  |          |                                 |          |
| Net unrealized gains on securities available for sale  | (208)                            | 1        | (1,305)                         | 1,447    |
| Net unrealized gains (losses) on hedging relationships | (195)                            | (175)    | (827)                           | 1,256    |
| Foreign currency translation adjustments               | (27)                             | 28       | 1                               | (16)     |
| Other  | (2)                              | (2)      | (3)                             | (2)      |
| Other comprehensive income (loss), net of tax          | (432)                            | (148)    | (2,134)                         | 2,685    |
| <b>Comprehensive income</b>                            | \$ 2,672                         | \$ 2,258 | \$ 7,831                        | \$ 2,833 |

See Notes to Consolidated Financial Statements.

**CAPITAL ONE FINANCIAL CORPORATION**  
**CONSOLIDATED BALANCE SHEETS (UNAUDITED)**

| <i>(Dollars in millions, except per share-related data)</i>   | September 30, 2021 | December 31, 2020 |
|---|--------------------|-------------------|
| <b>Assets:</b>  |                    |                   |
| Cash and cash equivalents:  |                    |                   |
| Cash and due from banks   | \$ 5,444           | \$ 4,708          |
| Interest-bearing deposits and other short-term investments  | 21,180             | 35,801            |
| Total cash and cash equivalents   | 26,624             | 40,509            |
| Restricted cash for securitization investors  | 234                | 262               |
| Securities available for sale (amortized cost of \$97.0 billion and \$97.6 billion and allowance for credit losses of \$1 million as of both September 30, 2021 and December 31, 2020)  | 98,149             | 100,445           |
| Loans held for investment:  |                    |                   |
| Unsecuritized loans held for investment   | 238,475            | 225,698           |
| Loans held in consolidated trusts   | 22,915             | 25,926            |
| Total loans held for investment   | 261,390            | 251,624           |
| Allowance for credit losses   | (11,573)           | (15,564)          |
| Net loans held for investment   | 249,817            | 236,060           |
| Loans held for sale (\$1.7 billion and \$596 million carried at fair value as of September 30, 2021 and December 31, 2020, respectively)  | 6,300              | 2,710             |
| Premises and equipment, net   | 4,204              | 4,287             |
| Interest receivable   | 1,418              | 1,471             |
| Goodwill  | 14,652             | 14,653            |
| Other assets  | 23,979             | 21,205            |
| <b>Total assets</b>   | <b>\$ 425,377</b>  | <b>\$ 421,602</b> |
| <b>Liabilities:</b>   |                    |                   |
| Interest payable  | \$ 241             | \$ 352            |
| Deposits:   |                    |                   |
| Non-interest-bearing deposits   | 36,804             | 31,142            |
| Interest-bearing deposits   | 269,134            | 274,300           |
| Total deposits  | 305,938            | 305,442           |
| Securitized debt obligations  | 12,635             | 12,414            |
| Other debt:   |                    |                   |
| Federal funds purchased and securities loaned or sold under agreements to repurchase  | 825                | 668               |
| Senior and subordinated notes   | 23,983             | 27,382            |
| Other borrowings  | 58                 | 75                |
| Total other debt  | 24,866             | 28,125            |
| Other liabilities   | 18,153             | 15,065            |
| <b>Total liabilities</b>  | <b>361,833</b>     | <b>361,398</b>    |
| Commitments, contingencies and guarantees (see Note 13)   |                    |                   |
| <b>Stockholders' equity:</b>  |                    |                   |
| Preferred stock (par value \$0.01 per share; 50,000,000 shares authorized; 6,075,000 and 4,975,000 shares issued and outstanding as of September 30, 2021 and December 31, 2020, respectively)  | 0                  | 0                 |
| Common stock (par value \$0.01 per share; 1,000,000,000 shares authorized; 684,515,909 and 679,932,837 shares issued as of September 30, 2021 and December 31, 2020, respectively; 430,375,948 and 458,972,202 shares outstanding as of September 30, 2021 and December 31, 2020, respectively) | 7                  | 7                 |
| Additional paid-in capital, net   | 35,051             | 33,480            |
| Retained earnings   | 48,944             | 40,088            |
| Accumulated other comprehensive income  | 1,360              | 3,494             |
| Treasury stock, at cost (par value \$0.01 per share; 254,139,961 and 220,960,635 shares as of September 30, 2021 and December 31, 2020, respectively)   | (21,818)           | (16,865)          |
| <b>Total stockholders' equity</b>   | <b>63,544</b>      | <b>60,204</b>     |
| <b>Total liabilities and stockholders' equity</b>   | <b>\$ 425,377</b>  | <b>\$ 421,602</b> |

See Notes to Consolidated Financial Statements.

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

| <i>(Dollars in millions)</i>                                       | Preferred Stock |        | Common Stock |        | Additional<br>Paid-In<br>Capital | Retained<br>Earnings | Accumulated<br>Other<br>Comprehensive<br>Income (Loss) | Treasury<br>Stock | Total<br>Stockholders'<br>Equity |
|--|-----------------|--------|--------------|--------|----------------------------------|----------------------|--|-------------------|----------------------------------|
|  | Shares          | Amount | Shares       | Amount |                                  |                      |  |                   |                                  |
| <b>Balance as of December 31, 2020</b>                             | 4,975,000       | \$ 0   | 679,932,837  | \$ 7   | \$ 33,480                        | \$ 40,088            | \$ 3,494   | \$ (16,865)       | \$ 60,204                        |
| Comprehensive income (loss)  |                 |        |              |        |                                  | 3,325                | (1,711)  |                   | 1,614                            |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 13,356       | 0      | 1                                | (185)                |  |                   | (184)                            |
| Dividends—preferred stock  |                 |        |              |        |                                  | (61)                 |  |                   | (61)                             |
| Purchases of treasury stock  |                 |        |              |        |                                  |                      |  | (575)             | (575)                            |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 2,531,966    | 0      | 60                               |                      |  |                   | 60                               |
| Exercises of stock options   |                 |        | 283,398      | 0      | 19                               |                      |  |                   | 19                               |
| Compensation expense for restricted stock units                    |                 |        |              |        | 111                              |                      |  |                   | 111                              |
| <b>Balance as of March 31, 2021</b>                                | 4,975,000       | \$ 0   | 682,761,557  | \$ 7   | \$ 33,671                        | \$ 43,167            | \$ 1,783   | \$ (17,440)       | \$ 61,188                        |
| Comprehensive income   |                 |        |              |        |                                  | 3,536                | 9  |                   | 3,545                            |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 4,954        | 0      | 1                                | (182)                |  |                   | (181)                            |
| Dividends—preferred stock  |                 |        |              |        |                                  | (60)                 |  |                   | (60)                             |
| Purchases of treasury stock  |                 |        |              |        |                                  |                      |  | (1,668)           | (1,668)                          |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 583,779      | 0      | 60                               |                      |  |                   | 60                               |
| Exercises of stock options   |                 |        | 209,528      | 0      | 15                               |                      |  |                   | 15                               |
| Issuances of preferred stock                                       | 1,675,000       | 0      |              |        | 1,641                            |                      |  |                   | 1,641                            |
| Compensation expense for restricted stock units                    |                 |        |              |        | 84                               |                      |  |                   | 84                               |
| <b>Balance as of June 30, 2021</b>                                 | 6,650,000       | \$ 0   | 683,559,818  | \$ 7   | \$ 35,472                        | \$ 46,461            | \$ 1,792   | \$ (19,108)       | \$ 64,624                        |
| Comprehensive income (loss)  |                 |        |              |        |                                  | 3,104                | (432)  |                   | 2,672                            |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 6,531        | 0      | 1                                | (530)                |  |                   | (529)                            |
| Dividends—preferred stock  |                 |        |              |        |                                  | (79)                 |  |                   | (79)                             |
| Purchases of treasury stock  |                 |        |              |        |                                  |                      |  | (2,710)           | (2,710)                          |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 531,629      | 0      | 71                               |                      |  |                   | 71                               |
| Exercises of stock options   |                 |        | 417,931      | 0      | 20                               |                      |  |                   | 20                               |
| Issuances of preferred stock                                       | 425,000         | 0      |              |        | 412                              |                      |  |                   | 412                              |
| Redemptions of preferred stock                                     | (1,000,000)     | 0      |              |        | (988)                            | (12)                 |  |                   | (1,000)                          |
| Compensation expense for restricted stock units                    |                 |        |              |        | 63                               |                      |  |                   | 63                               |
| <b>Balance as of September 30, 2021</b>                            | 6,075,000       | \$ 0   | 684,515,909  | \$ 7   | \$ 35,051                        | \$ 48,944            | \$ 1,360   | \$ (21,818)       | \$ 63,544                        |

See Notes to Consolidated Financial Statements.

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

|  | Preferred Stock |        | Common Stock |        | Additional Paid-In Capital | Retained Earnings | Accumulated Other Comprehensive Income (Loss) | Treasury Stock | Total Stockholders' Equity |
|--|-----------------|--------|--------------|--------|----------------------------|-------------------|---|----------------|----------------------------|
|  | Shares          | Amount | Shares       | Amount |                            |                   |   |                |                            |
| <i>(Dollars in millions)</i>                                       |                 |        |              |        |                            |                   |   |                |                            |
| <b>Balance as of December 31, 2019</b>                             | 4,975,000       | \$ 0   | 672,969,391  | \$ 7   | \$ 32,980                  | \$ 40,340         | \$ 1,156                                      | \$ (16,472)    | \$ 58,011                  |
| Cumulative effects from adoption of the CECL standard              |                 |        |              |        |                            | (2,184)           | (8)   |                | (2,192)                    |
| Comprehensive income (loss)  |                 |        |              |        |                            | (1,340)           | 2,531   |                | 1,191                      |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 23,213       | 0      | 2                          | (187)             |   |                | (185)                      |
| Dividends—preferred stock  |                 |        |              |        |                            | (55)              |   |                | (55)                       |
| Purchases of treasury stock  |                 |        |              |        |                            |                   |   | (386)          | (386)                      |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 2,618,628    | 0      | 63                         |                   |   |                | 63                         |
| Exercises of stock options   |                 |        | 559,333      | 0      | 20                         |                   |   |                | 20                         |
| Issuances of preferred stock                                       | 1,250,000       | 0      |              |        | 1,209                      |                   |   |                | 1,209                      |
| Redemptions of preferred stock                                     | (875,000)       | 0      |              |        | (853)                      | (22)              |   |                | (875)                      |
| Compensation expense for restricted stock units and stock options  |                 |        |              |        | 29                         |                   |   |                | 29                         |
| <b>Balance as of March 31, 2020</b>                                | 5,350,000       | \$ 0   | 676,170,565  | \$ 7   | \$ 33,450                  | \$ 36,552         | \$ 3,679                                      | \$ (16,858)    | \$ 56,830                  |
| Comprehensive income (loss)  |                 |        |              |        |                            | (918)             | 302   |                | (616)                      |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 6,521        | 0      | 0                          | (183)             |   |                | (183)                      |
| Dividends—preferred stock  |                 |        |              |        |                            | (90)              |   |                | (90)                       |
| Purchases of treasury stock  |                 |        |              |        |                            |                   |   | (2)            | (2)                        |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 1,041,311    | 0      | 58                         |                   |   |                | 58                         |
| Exercises of stock options   |                 |        | 8,410        | 0      | 0                          |                   |   |                | 0                          |
| Compensation expense for restricted stock units and stock options  |                 |        |              |        | 48                         |                   |   |                | 48                         |
| <b>Balance as of June 30, 2020</b>                                 | 5,350,000       | \$ 0   | 677,226,807  | \$ 7   | \$ 33,556                  | \$ 35,361         | \$ 3,981                                      | \$ (16,860)    | \$ 56,045                  |
| Comprehensive income (loss)  |                 |        |              |        |                            | 2,406             | (148)   |                | 2,258                      |
| Dividends—common stock <sup>(1)</sup>                              |                 |        | 1,608        | 0      | 0                          | (47)              |   |                | (47)                       |
| Dividends—preferred stock  |                 |        |              |        |                            | (67)              |   |                | (67)                       |
| Purchases of treasury stock  |                 |        |              |        |                            |                   |   | (2)            | (2)                        |
| Issuances of common stock and restricted stock, net of forfeitures |                 |        | 1,073,323    | 0      | 63                         |                   |   |                | 63                         |
| Exercises of stock options   |                 |        | 16,591       | 0      | 1                          |                   |   |                | 1                          |
| Issuances of preferred stock                                       | 125,000         | 0      |              |        | 121                        |                   |   |                | 121                        |
| Compensation expense for restricted stock units and stock options  |                 |        |              |        | 52                         |                   |   |                | 52                         |
| <b>Balance as of September 30, 2020</b>                            | 5,475,000       | \$ 0   | 678,318,329  | \$ 7   | \$ 33,793                  | \$ 37,653         | \$ 3,833                                      | \$ (16,862)    | \$ 58,424                  |

<sup>(1)</sup> We declared dividends per share on our common stock of \$1.20 and \$0.10 in the third quarter of 2021 and 2020, respectively, and \$2.00 and \$0.90 in the first nine months of 2021 and 2020, respectively.

See Notes to Consolidated Financial Statements.

**CAPITAL ONE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| <i>(Dollars in millions)</i>  | Nine Months Ended September 30, |                |
|---|---------------------------------|----------------|
|   | 2021                            | 2020           |
| <b>Operating activities:</b>  |                                 |                |
| Income from continuing operations, net of tax                                     | \$ 9,968                        | \$ 149         |
| Loss from discontinued operations, net of tax                                     | (3)                             | (1)            |
| Net income  | 9,965                           | 148            |
| Adjustments to reconcile net income (loss) to net cash from operating activities: |                                 |                |
| Provision (benefit) for credit losses   | (2,325)                         | 10,000         |
| Depreciation and amortization, net  | 2,628                           | 2,701          |
| Deferred tax provision (benefit)  | 580                             | (1,420)        |
| Net securities losses (gains)   | (6)                             | (25)           |
| Gain on sales of loans  | (8)                             | (15)           |
| Stock-based compensation expense  | 270                             | 128            |
| Other (including (gains) and losses from equity investments)                      | 8                               | (477)          |
| Loans held for sale:  |                                 |                |
| Originations and purchases  | (7,011)                         | (6,739)        |
| Proceeds from sales and paydowns  | 6,227                           | 5,833          |
| Changes in operating assets and liabilities:                                      |                                 |                |
| Changes in interest receivable  | 59                              | 207            |
| Changes in other assets   | (4,833)                         | 1,052          |
| Changes in interest payable   | (111)                           | (107)          |
| Changes in other liabilities  | 2,211                           | 785            |
| Net change from discontinued operations   | (6)                             | 1              |
| <b>Net cash from operating activities</b>   | <b>7,648</b>                    | <b>12,072</b>  |
| <b>Investing activities:</b>  |                                 |                |
| Securities available for sale:  |                                 |                |
| Purchases   | (21,951)                        | (35,189)       |
| Proceeds from paydowns and maturities   | 20,795                          | 15,593         |
| Proceeds from sales   | 1,735                           | 812            |
| Loans:  |                                 |                |
| Net changes in loans held for investment  | (16,185)                        | 9,083          |
| Principal recoveries of loans previously charged off                              | 1,901                           | 1,898          |
| Net purchases of premises and equipment   | (504)                           | (543)          |
| Net cash from acquisition activities  | (551)                           | (7)            |
| Net cash from other investing activities  | (286)                           | (564)          |
| <b>Net cash from investing activities</b>   | <b>(15,046)</b>                 | <b>(8,917)</b> |

See Notes to Consolidated Financial Statements.

**CAPITAL ONE FINANCIAL CORPORATION**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS (UNAUDITED)**

| <i>(Dollars in millions)</i>   | <b>Nine Months Ended September 30,</b> |                  |
|--|--|------------------|
|  | <b>2021</b>                            | <b>2020</b>      |
| <b>Financing activities:</b>   |  |                  |
| Deposits and borrowings:   |  |                  |
| Changes in deposits  | \$ 597                                 | \$ 42,763        |
| Issuance of securitized debt obligations   | 2,991                                  | 1,248            |
| Maturities and paydowns of securitized debt obligations  | (2,638)                                | (5,752)          |
| Issuance of senior and subordinated notes and long-term FHLB advances                            | 996                                    | 3,987            |
| Maturities and paydowns of senior and subordinated notes and long-term FHLB advances             | (3,851)                                | (7,156)          |
| Changes in other borrowings  | 139                                    | (6,636)          |
| Common stock:  |  |                  |
| Net proceeds from issuances  | 191                                    | 184              |
| Dividends paid   | (894)                                  | (415)            |
| Preferred stock:   |  |                  |
| Net proceeds from issuances  | 2,053                                  | 1,330            |
| Dividends paid   | (200)                                  | (212)            |
| Redemptions  | (1,000)                                | (875)            |
| Purchases of treasury stock  | (4,953)                                | (390)            |
| Proceeds from share-based payment activities   | 54                                     | 21               |
| <b>Net cash from financing activities</b>  | <b>(6,515)</b>                         | <b>28,097</b>    |
| Changes in cash, cash equivalents and restricted cash for securitization investors               | (13,913)                               | 31,252           |
| Cash, cash equivalents and restricted cash for securitization investors, beginning of the period | 40,771                                 | 13,749           |
| Cash, cash equivalents and restricted cash for securitization investors, end of the period       | <b>\$ 26,858</b>                       | <b>\$ 45,001</b> |
| <b>Supplemental cash flow information:</b>   |  |                  |
| Non-cash items:  |  |                  |
| Net transfers from (to) loans held for investment to (from) loans held for sale                  | \$ 4,577                               | \$ 2,173         |
| Interest paid  | 1,703                                  | 2,944            |
| Income tax paid  | 1,672                                  | 625              |

See Notes to Consolidated Financial Statements.

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**NOTE 1—SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

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**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 digital channels, branches, Cafés and other distribution channels. As of September 30, 2021, our principal subsidiaries included:

- Capital One Bank (USA), National Association (“COBNA”), which offers credit card products along with other lending products and consumer services; 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 organized for management reporting purposes into three major business segments, which are defined primarily based on the products and services provided or the types 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 12—Business Segments and Revenue from Contracts with Customers.”

**Basis of Presentation and Use of Estimates**

The accompanying unaudited interim consolidated financial statements have been prepared in accordance with generally accepted accounting principles in the U.S. (“U.S. GAAP”). The preparation of the consolidated 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 judgments, 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 interim 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 2020 Annual Report on Form 10-K (“2020 Form 10-K”).

**Newly Adopted Accounting Standards During the Nine Months Ended September 30, 2021**

| Standard   | Guidance   | Adoption Timing and Financial Statement Impacts   |
|--|--|---|
| <b>Income Tax Accounting Simplification</b><br>ASU No. 2019-12, Income Taxes (Topic 740):<br><i>Simplifying the Accounting for Income Taxes</i><br><i>Issued December 2019</i> | Simplifies various aspects of the guidance on accounting for income taxes. | We adopted this guidance in the first quarter of 2021 using the modified retrospective and prospective methods of adoption.<br><br>Our adoption of this standard did not have a material impact on our consolidated financial statements. |

**NOTE 2—INVESTMENT SECURITIES**

Our investment securities portfolio consists of the following: U.S. government-sponsored enterprise or agency (“Agency”) and non-agency residential mortgage-backed securities (“RMBS”), Agency commercial mortgage-backed securities (“CMBS”), U.S. Treasury securities and other securities. Agency securities include Government National Mortgage Association (“Ginnie Mae”) guaranteed securities, Federal National Mortgage Association (“Fannie Mae”) and Federal Home Loan Mortgage Corporation (“Freddie Mac”) issued securities. The carrying value of our investments in Agency and U.S. Treasury securities represented 96% of our total investment securities portfolio as of both September 30, 2021 and December 31, 2020.

The table below presents the amortized cost, gross unrealized gains and losses, and fair value of securities available for sale as of September 30, 2021 and December 31, 2020. Accrued interest receivable of \$227 million and \$230 million as of September 30, 2021, and December 31, 2020, respectively, is not included in the table below.

**Table 2.1: Investment Securities Available for Sale**

|   | September 30, 2021 |                                   |                              |                               |                   |
|---|--------------------|-----------------------------------|------------------------------|-------------------------------|-------------------|
|   | Amortized<br>Cost  | Allowance<br>for Credit<br>Losses | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value     |
| <i>(Dollars in millions)</i>                          |                    |                                   |                              |                               |                   |
| <b>Investment securities available for sale:</b>      |                    |                                   |                              |                               |                   |
| U.S. Treasury securities                              | \$ 9,094           | \$ 0                              | \$ 15                        | \$ 0                          | \$ 9,109          |
| <b>RMBS:</b>  |                    |                                   |                              |                               |                   |
| Agency  | 73,924             | 0                                 | 1,325                        | (617)                         | 74,632            |
| Non-agency  | 844                | (1)                               | 206                          | 0                             | 1,049             |
| Total RMBS  | 74,768             | (1)                               | 1,531                        | (617)                         | 75,681            |
| Agency CMBS   | 9,973              | 0                                 | 265                          | (41)                          | 10,197            |
| Other securities <sup>(1)</sup>                       | 3,154              | 0                                 | 8                            | 0                             | 3,162             |
| <b>Total investment securities available for sale</b> | <b>\$ 96,989</b>   | <b>\$ (1)</b>                     | <b>\$ 1,819</b>              | <b>\$ (658)</b>               | <b>\$ 98,149</b>  |
| <br>  |                    |                                   |                              |                               |                   |
|   | December 31, 2020  |                                   |                              |                               |                   |
|   | Amortized<br>Cost  | Allowance<br>for Credit<br>Losses | Gross<br>Unrealized<br>Gains | Gross<br>Unrealized<br>Losses | Fair<br>Value     |
| <i>(Dollars in millions)</i>                          |                    |                                   |                              |                               |                   |
| <b>Investment securities available for sale:</b>      |                    |                                   |                              |                               |                   |
| U.S. Treasury securities                              | \$ 9,302           | \$ 0                              | \$ 16                        | \$ 0                          | \$ 9,318          |
| <b>RMBS:</b>  |                    |                                   |                              |                               |                   |
| Agency  | 73,248             | 0                                 | 2,326                        | (108)                         | 75,466            |
| Non-agency  | 1,035              | (1)                               | 204                          | (1)                           | 1,237             |
| Total RMBS  | 74,283             | (1)                               | 2,530                        | (109)                         | 76,703            |
| Agency CMBS   | 11,298             | 0                                 | 448                          | (11)                          | 11,735            |
| Other securities <sup>(1)</sup>                       | 2,686              | 0                                 | 3                            | 0                             | 2,689             |
| <b>Total investment securities available for sale</b> | <b>\$ 97,569</b>   | <b>\$ (1)</b>                     | <b>\$ 2,997</b>              | <b>\$ (120)</b>               | <b>\$ 100,445</b> |

<sup>(1)</sup> Includes \$2.3 billion and \$1.8 billion of asset-backed securities (“ABS”) as of September 30, 2021, and December 31, 2020, respectively. The remaining amount is primarily comprised of supranational bonds and foreign government bonds.

## Investment Securities in a Gross Unrealized Loss Position

The table below provides the gross unrealized losses and fair value of our securities available for sale aggregated by major security type and the length of time that individual securities have been in a continuous unrealized loss position as of September 30, 2021 and December 31, 2020. The amounts include securities available for sale without an allowance for credit losses.

**Table 2.2: Securities in a Gross Unrealized Loss Position**

| <i>(Dollars in millions)</i>   | September 30, 2021  |                         |                     |                         |                  |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|------------------|-------------------------|
|  | Less than 12 Months |                         | 12 Months or Longer |                         | Total            |                         |
|  | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |
| <b>Investment securities available for sale without an allowance for credit losses:</b>  |                     |                         |                     |                         |                  |                         |
| RMBS:  |                     |                         |                     |                         |                  |                         |
| Agency   | \$ 35,415           | \$ (519)                | \$ 4,068            | \$ (98)                 | \$ 39,483        | \$ (617)                |
| Non-agency   | 0                   | 0                       | 1                   | 0                       | 1                | 0                       |
| <b>Total RMBS</b>  | <b>35,415</b>       | <b>(519)</b>            | <b>4,069</b>        | <b>(98)</b>             | <b>39,484</b>    | <b>(617)</b>            |
| Agency CMBS  | 1,746               | (26)                    | 561                 | (15)                    | 2,307            | (41)                    |
| Other securities <sup>(1)</sup>  | 470                 | 0                       | 0                   | 0                       | 470              | 0                       |
| Total investment securities available for sale in a gross unrealized loss position without an allowance for credit losses <sup>(2)</sup> | <u>\$ 37,631</u>    | <u>\$ (545)</u>         | <u>\$ 4,630</u>     | <u>\$ (113)</u>         | <u>\$ 42,261</u> | <u>\$ (658)</u>         |

| <i>(Dollars in millions)</i>   | December 31, 2020   |                         |                     |                         |                  |                         |
|--|---------------------|-------------------------|---------------------|-------------------------|------------------|-------------------------|
|  | Less than 12 Months |                         | 12 Months or Longer |                         | Total            |                         |
|  | Fair Value          | Gross Unrealized Losses | Fair Value          | Gross Unrealized Losses | Fair Value       | Gross Unrealized Losses |
| <b>Investment securities available for sale without an allowance for credit losses:</b>  |                     |                         |                     |                         |                  |                         |
| RMBS:  |                     |                         |                     |                         |                  |                         |
| Agency   | \$ 7,424            | \$ (57)                 | \$ 1,791            | \$ (51)                 | \$ 9,215         | \$ (108)                |
| Non-agency   | 12                  | 0                       | 0                   | 0                       | 12               | 0                       |
| <b>Total RMBS</b>  | <b>7,436</b>        | <b>(57)</b>             | <b>1,791</b>        | <b>(51)</b>             | <b>9,227</b>     | <b>(108)</b>            |
| Agency CMBS  | 1,545               | (7)                     | 267                 | (4)                     | 1,812            | (11)                    |
| Other securities <sup>(1)</sup>  | 114                 | 0                       | 1                   | 0                       | 115              | 0                       |
| Total investment securities available for sale in a gross unrealized loss position without an allowance for credit losses <sup>(2)</sup> | <u>\$ 9,095</u>     | <u>\$ (64)</u>          | <u>\$ 2,059</u>     | <u>\$ (55)</u>          | <u>\$ 11,154</u> | <u>\$ (119)</u>         |

<sup>(1)</sup> Includes primarily other asset-backed securities, foreign government bonds, and supranational bonds.

<sup>(2)</sup> Consists of approximately 540 and 320 securities in gross unrealized loss positions as of September 30, 2021 and December 31, 2020, respectively.

## Maturities and Yields of Investment Securities

The table below summarizes, by major security type, the contractual maturities and weighted-average yields of our investment securities as of September 30, 2021. 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 below. The weighted-average yield below represents the effective yield for the investment securities and is calculated based on the amortized cost of each security.

**Table 2.3: Contractual Maturities and Weighted-Average Yields of Securities**

| <i>(Dollars in millions)</i>                                    | September 30, 2021       |                                    |                                      |                |           |
|---|--------------------------|------------------------------------|--------------------------------------|----------------|-----------|
|   | Due in<br>1 Year or Less | Due > 1 Year<br>through<br>5 Years | Due > 5 Years<br>through<br>10 Years | Due > 10 Years | Total     |
| <b>Fair value of securities available for sale:</b>             |                          |                                    |                                      |                |           |
| U.S. Treasury securities  | \$ 5,203                 | \$ 3,906                           | \$ 0                                 | \$ 0           | \$ 9,109  |
| RMBS <sup>(1)</sup> :   |                          |                                    |                                      |                |           |
| Agency  | 0                        | 137                                | 1,106                                | 73,389         | 74,632    |
| Non-agency  | 0                        | 0                                  | 0                                    | 1,049          | 1,049     |
| Total RMBS  | 0                        | 137                                | 1,106                                | 74,438         | 75,681    |
| Agency CMBS <sup>(1)</sup>                                      | 570                      | 2,489                              | 4,462                                | 2,676          | 10,197    |
| Other securities  | 252                      | 2,585                              | 325                                  | 0              | 3,162     |
| Total securities available for sale                             | \$ 6,025                 | \$ 9,117                           | \$ 5,893                             | \$ 77,114      | \$ 98,149 |
| <b>Amortized cost of securities available for sale</b>          | \$ 6,019                 | \$ 9,062                           | \$ 5,761                             | \$ 76,147      | \$ 96,989 |
| <b>Weighted-average yield for securities available for sale</b> | 0.31 %                   | 0.72 %                             | 1.66 %                               | 1.71 %         | 1.53 %    |

<sup>(1)</sup> As of September 30, 2021, the weighted-average expected maturities of RMBS and Agency CMBS were 5.3 years and 5.5 years, respectively.

## Net Securities Gains or Losses and Proceeds from Sales

For the three and nine months ended September 30, 2021, total proceeds from sales of our securities were \$1.1 billion and \$1.7 billion, respectively, with gains of \$2 million and \$6 million, respectively. For the three and nine months ended September 30, 2020, total proceeds from the sale of our securities were \$668 million and \$812 million respectively, with gains of \$25 million in both periods.

## Securities Pledged and Received

We pledged investment securities totaling \$19.6 billion and \$16.5 billion as of September 30, 2021 and December 31, 2020, respectively. These securities are primarily pledged to secure FHLB advances and Public Funds deposits, as well as for other purposes as required or permitted by law. We accepted pledges of securities with a fair value of approximately \$1 million as of both September 30, 2021 and December 31, 2020, related to our derivative transactions.

**NOTE 3—LOANS**

Our loan portfolio consists of loans held for investment, including loans held in our consolidated trusts, and loans held for sale. We further divide our loans held for investment 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 and retail banking loans. Commercial banking loans consist of commercial and multifamily real estate as well as commercial and industrial loans. The information presented in this section excludes loans held for sale, which are carried at either fair value (if we elect the fair value option) or at the lower of cost or fair value. Amounts include the impacts of COVID-19 customer assistance programs where applicable.

Accrued interest receivable of \$1.2 billion as of both September 30, 2021 and December 31, 2020, is not included in the tables in this note. The table below presents the composition and aging analysis of our loans held for investment portfolio as of September 30, 2021 and December 31, 2020. The delinquency aging includes all past due loans, both performing and nonperforming.

**Table 3.1: Loan Portfolio Composition and Aging Analysis**

|  | September 30, 2021 |                  |              |          |                              |                |
|--|--------------------|------------------|--------------|----------|------------------------------|----------------|
|  | Current            | Delinquent Loans |              |          | Total<br>Delinquent<br>Loans | Total<br>Loans |
| 30-59<br>Days                          |                    | 60-89<br>Days    | ≥ 90<br>Days |          |                              |                |
| <i>(Dollars in millions)</i>           |                    |                  |              |          |                              |                |
| <b>Credit Card:</b>                    |                    |                  |              |          |                              |                |
| Domestic credit card                   | \$ 97,346          | \$ 646           | \$ 425       | \$ 841   | \$ 1,912                     | \$ 99,258      |
| International card businesses          | 5,579              | 72               | 45           | 76       | 193                          | 5,772          |
| Total credit card                      | 102,925            | 718              | 470          | 917      | 2,105                        | 105,030        |
| <b>Consumer Banking:</b>               |                    |                  |              |          |                              |                |
| Auto                                   | 71,770             | 1,996            | 769          | 181      | 2,946                        | 74,716         |
| Retail banking                         | 2,347              | 26               | 5            | 18       | 49                           | 2,396          |
| Total consumer banking                 | 74,117             | 2,022            | 774          | 199      | 2,995                        | 77,112         |
| <b>Commercial Banking:</b>             |                    |                  |              |          |                              |                |
| Commercial and multifamily real estate | 32,973             | 72               | 1            | 50       | 123                          | 33,096         |
| Commercial and industrial              | 45,808             | 181              | 134          | 29       | 344                          | 46,152         |
| Total commercial banking               | 78,781             | 253              | 135          | 79       | 467                          | 79,248         |
| Total loans <sup>(1)</sup>             | \$ 255,823         | \$ 2,993         | \$ 1,379     | \$ 1,195 | \$ 5,567                     | \$ 261,390     |
| % of Total loans                       | 97.87 %            | 1.14 %           | 0.53 %       | 0.46 %   | 2.13 %                       | 100.00 %       |

| <i>(Dollars in millions)</i>           | December 31, 2020 |                 |                 |                 |                              |                   |
|--|-------------------|-----------------|-----------------|-----------------|------------------------------|-------------------|
|  | Delinquent Loans  |                 |                 |                 | Total<br>Delinquent<br>Loans | Total<br>Loans    |
|  | Current           | 30-59<br>Days   | 60-89<br>Days   | ≥ 90<br>Days    |                              |                   |
| <b>Credit Card:</b>                    |                   |                 |                 |                 |                              |                   |
| Domestic credit card                   | \$ 96,116         | \$ 755          | \$ 464          | \$ 1,169        | \$ 2,388                     | \$ 98,504         |
| International card businesses          | 8,218             | 90              | 58              | 86              | 234                          | 8,452             |
| Total credit card                      | 104,334           | 845             | 522             | 1,255           | 2,622                        | 106,956           |
| <b>Consumer Banking:</b>               |                   |                 |                 |                 |                              |                   |
| Auto                                   | 62,381            | 2,252           | 907             | 222             | 3,381                        | 65,762            |
| Retail banking                         | 3,064             | 28              | 19              | 15              | 62                           | 3,126             |
| Total consumer banking                 | 65,445            | 2,280           | 926             | 237             | 3,443                        | 68,888            |
| <b>Commercial Banking:</b>             |                   |                 |                 |                 |                              |                   |
| Commercial and multifamily real estate | 30,340            | 136             | 22              | 183             | 341                          | 30,681            |
| Commercial and industrial              | 44,941            | 69              | 15              | 74              | 158                          | 45,099            |
| Total commercial banking               | 75,281            | 205             | 37              | 257             | 499                          | 75,780            |
| <b>Total loans<sup>(1)</sup></b>       | <b>\$ 245,060</b> | <b>\$ 3,330</b> | <b>\$ 1,485</b> | <b>\$ 1,749</b> | <b>\$ 6,564</b>              | <b>\$ 251,624</b> |
| % of Total loans                       | 97.39 %           | 1.32 %          | 0.59 %          | 0.70 %          | 2.61 %                       | 100.00 %          |

<sup>(1)</sup> Loans include unamortized premiums and discounts, and unamortized deferred fees and costs totaling \$1.4 billion and \$1.1 billion as of September 30, 2021 and December 31, 2020, respectively.

The following table presents our loans held for investment that are 90 days or more past due that continue to accrue interest, loans that are classified as nonperforming and loans that are classified as nonperforming without an allowance as of September 30, 2021 and December 31, 2020. Nonperforming loans generally include loans that have been placed on nonaccrual status.

**Table 3.2: 90+ Day Delinquent Loans Accruing Interest and Nonperforming Loans**

| <i>(Dollars in millions)</i>           | September 30, 2021     |                                    |  | December 31, 2020      |                                    |  |
|--|------------------------|------------------------------------|--|------------------------|------------------------------------|--|
|  | ≥ 90 Days and Accruing | Nonperforming Loans <sup>(1)</sup> | Nonperforming Loans Without an Allowance | ≥ 90 Days and Accruing | Nonperforming Loans <sup>(1)</sup> | Nonperforming Loans Without an Allowance |
| <b>Credit Card:</b>                    |                        |                                    |  |                        |                                    |  |
| Domestic credit card                   | \$ 841                 | N/A                                | \$ 0                                     | \$ 1,169               | N/A                                | \$ 0                                     |
| International card businesses          | 74                     | \$ 9                               | 0  | 82                     | \$ 21                              | 0  |
| Total credit card                      | 915                    | 9                                  | 0  | 1,251                  | 21                                 | 0  |
| <b>Consumer Banking:</b>               |                        |                                    |  |                        |                                    |  |
| Auto                                   | 0                      | 270                                | 0  | 0                      | 294                                | 0  |
| Retail banking                         | 0                      | 53                                 | 19                                       | 0                      | 30                                 | 0  |
| Total consumer banking                 | 0                      | 323                                | 19                                       | 0                      | 324                                | 0  |
| <b>Commercial Banking:</b>             |                        |                                    |  |                        |                                    |  |
| Commercial and multifamily real estate | 0                      | 287                                | 265                                      | 51                     | 200                                | 184                                      |
| Commercial and industrial              | 7                      | 314                                | 233                                      | 0                      | 450                                | 265                                      |
| Total commercial banking               | 7                      | 601                                | 498                                      | 51                     | 650                                | 449                                      |
| Total                                  | \$ 922                 | \$ 933                             | \$ 517                                   | \$ 1,302               | \$ 995                             | \$ 449                                   |
| % of Total loans held for investment   | 0.35 %                 | 0.35 %                             | 0.20 %                                   | 0.52 %                 | 0.40 %                             | 0.18 %                                   |

<sup>(1)</sup> We recognized interest income for loans classified as nonperforming of \$1 million and \$21 million for the three and nine months ended September 30, 2021, respectively, and \$4 million and \$22 million for the three and nine months ended September 30, 2020, respectively.

### Credit Quality Indicators

We closely monitor economic conditions and loan performance trends to assess and manage our exposure to credit risk. We discuss these risks and our credit quality indicator for each portfolio segment below.

#### 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 key indicator we assess in monitoring the credit quality and risk of our credit card loan portfolio is delinquency trends, including an analysis of loan migration between delinquency categories over time.

The table below presents our credit card portfolio by delinquency status as of September 30, 2021 and December 31, 2020.

**Table 3.3: Credit Card Delinquency Status**

| <i>(Dollars in millions)</i>               | September 30, 2021 |   |                   | December 31, 2020 |                                      |                   |
|--|--------------------|---|-------------------|-------------------|--------------------------------------|-------------------|
|  | Revolving Loans    | Revolving Loans<br>Converted to<br>Term | Total             | Revolving Loans   | Revolving Loans<br>Converted to Term | Total             |
| <b>Credit Card:</b>                        |                    |   |                   |                   |                                      |                   |
| <b>Domestic credit card:</b>               |                    |   |                   |                   |                                      |                   |
| Current                                    | \$ 96,977          | \$ 369                                  | \$ 97,346         | \$ 95,629         | \$ 487                               | \$ 96,116         |
| 30-59 days                                 | 632                | 14                                      | 646               | 734               | 21                                   | 755               |
| 60-89 days                                 | 417                | 8                                       | 425               | 451               | 13                                   | 464               |
| Greater than 90 days                       | 832                | 9                                       | 841               | 1,155             | 14                                   | 1,169             |
| <b>Total domestic credit card</b>          | <b>98,858</b>      | <b>400</b>                              | <b>99,258</b>     | <b>97,969</b>     | <b>535</b>                           | <b>98,504</b>     |
| <b>International card businesses:</b>      |                    |   |                   |                   |                                      |                   |
| Current                                    | 5,534              | 45                                      | 5,579             | 8,152             | 66                                   | 8,218             |
| 30-59 days                                 | 67                 | 5                                       | 72                | 79                | 11                                   | 90                |
| 60-89 days                                 | 41                 | 4                                       | 45                | 47                | 11                                   | 58                |
| Greater than 90 days                       | 72                 | 4                                       | 76                | 76                | 10                                   | 86                |
| <b>Total international card businesses</b> | <b>5,714</b>       | <b>58</b>                               | <b>5,772</b>      | <b>8,354</b>      | <b>98</b>                            | <b>8,452</b>      |
| <b>Total credit card</b>                   | <b>\$ 104,572</b>  | <b>\$ 458</b>                           | <b>\$ 105,030</b> | <b>\$ 106,323</b> | <b>\$ 633</b>                        | <b>\$ 106,956</b> |

### Consumer Banking

Our consumer banking loan portfolio consists of auto 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 and home values, as well as consumers' financial condition, all of which can have a material effect on credit performance. The key indicator we monitor when assessing the credit quality and risk of our auto loan portfolio is borrower credit scores as they measure the creditworthiness of borrowers. Delinquency trends are the key indicator we assess in monitoring the credit quality and risk of our retail banking loan portfolio.

The table below presents our consumer banking portfolio of loans held for investment by credit quality indicator as of September 30, 2021 and December 31, 2020. We present our auto loan portfolio by FICO scores at origination and our retail banking loan portfolio by delinquency status, which includes all past due loans, both performing and nonperforming.

**Table 3.4: Consumer Banking Portfolio by Credit Quality Indicator**

| (Dollars in millions)                                 | September 30, 2021         |                  |                  |                 |                 |                 |                  |                 |                                   |                  |
|---|----------------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------------------------|------------------|
|   | Term Loans by Vintage Year |                  |                  |                 |                 |                 | Total Term Loans | Revolving Loans | Revolving Loans Converted to Term | Total            |
|   | 2021                       | 2020             | 2019             | 2018            | 2017            | Prior           |                  |                 |                                   |                  |
| <b>Auto—At origination FICO scores:<sup>(1)</sup></b> |                            |                  |                  |                 |                 |                 |                  |                 |                                   |                  |
| Greater than 660                                      | \$ 16,685                  | \$ 9,696         | \$ 5,448         | \$ 2,860        | \$ 1,475        | \$ 462          | \$ 36,626        | \$ 0            | \$ 0                              | \$ 36,626        |
| 621-660   | 6,093                      | 4,212            | 2,435            | 1,276           | 666             | 231             | 14,913           | 0               | 0                                 | 14,913           |
| 620 or below  | 7,949                      | 7,131            | 4,321            | 2,150           | 1,161           | 465             | 23,177           | 0               | 0                                 | 23,177           |
| <b>Total auto</b>                                     | <b>30,727</b>              | <b>21,039</b>    | <b>12,204</b>    | <b>6,286</b>    | <b>3,302</b>    | <b>1,158</b>    | <b>74,716</b>    | <b>0</b>        | <b>0</b>                          | <b>74,716</b>    |
| <b>Retail banking—Delinquency status:</b>             |                            |                  |                  |                 |                 |                 |                  |                 |                                   |                  |
| Current   | 420                        | 324              | 184              | 185             | 187             | 544             | 1,844            | 497             | 6                                 | 2,347            |
| 30-59 days  | 0                          | 1                | 0                | 0               | 0               | 4               | 5                | 20              | 1                                 | 26               |
| 60-89 days  | 0                          | 0                | 0                | 0               | 0               | 3               | 3                | 2               | 0                                 | 5                |
| Greater than 90 days                                  | 0                          | 1                | 0                | 1               | 1               | 5               | 8                | 9               | 1                                 | 18               |
| <b>Total retail banking<sup>(2)</sup></b>             | <b>420</b>                 | <b>326</b>       | <b>184</b>       | <b>186</b>      | <b>188</b>      | <b>556</b>      | <b>1,860</b>     | <b>528</b>      | <b>8</b>                          | <b>2,396</b>     |
| <b>Total consumer banking</b>                         | <b>\$ 31,147</b>           | <b>\$ 21,365</b> | <b>\$ 12,388</b> | <b>\$ 6,472</b> | <b>\$ 3,490</b> | <b>\$ 1,714</b> | <b>\$ 76,576</b> | <b>\$ 528</b>   | <b>\$ 8</b>                       | <b>\$ 77,112</b> |

December 31, 2020

| (Dollars in millions)                                 | Term Loans by Vintage Year |                  |                  |                 |                 |                 | Total Term Loans | Revolving Loans | Revolving Loans Converted to Term | Total            |
|---|----------------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|-----------------|-----------------------------------|------------------|
|   | 2020                       | 2019             | 2018             | 2017            | 2016            | Prior           |                  |                 |                                   |                  |
| <b>Auto—At origination FICO scores:<sup>(1)</sup></b> |                            |                  |                  |                 |                 |                 |                  |                 |                                   |                  |
| Greater than 660                                      | \$ 13,352                  | \$ 8,091         | \$ 4,675         | \$ 2,810        | \$ 1,168        | \$ 203          | \$ 30,299        | \$ 0            | \$ 0                              | \$ 30,299        |
| 621-660   | 5,781                      | 3,631            | 2,003            | 1,172           | 488             | 109             | 13,184           | 0               | 0                                 | 13,184           |
| 620 or below  | 9,550                      | 6,298            | 3,317            | 1,985           | 886             | 243             | 22,279           | 0               | 0                                 | 22,279           |
| <b>Total auto</b>                                     | <b>28,683</b>              | <b>18,020</b>    | <b>9,995</b>     | <b>5,967</b>    | <b>2,542</b>    | <b>555</b>      | <b>65,762</b>    | <b>0</b>        | <b>0</b>                          | <b>65,762</b>    |
| <b>Retail banking—Delinquency status:</b>             |                            |                  |                  |                 |                 |                 |                  |                 |                                   |                  |
| Current   | 1,041                      | 233              | 206              | 222             | 167             | 537             | 2,406            | 651             | 7                                 | 3,064            |
| 30-59 days  | 0                          | 0                | 7                | 1               | 2               | 2               | 12               | 15              | 1                                 | 28               |
| 60-89 days  | 0                          | 0                | 1                | 0               | 5               | 4               | 10               | 8               | 1                                 | 19               |
| Greater than 90 days                                  | 0                          | 0                | 0                | 1               | 1               | 4               | 6                | 9               | 0                                 | 15               |
| <b>Total retail banking<sup>(2)</sup></b>             | <b>1,041</b>               | <b>233</b>       | <b>214</b>       | <b>224</b>      | <b>175</b>      | <b>547</b>      | <b>2,434</b>     | <b>683</b>      | <b>9</b>                          | <b>3,126</b>     |
| <b>Total consumer banking</b>                         | <b>\$ 29,724</b>           | <b>\$ 18,253</b> | <b>\$ 10,209</b> | <b>\$ 6,191</b> | <b>\$ 2,717</b> | <b>\$ 1,102</b> | <b>\$ 68,196</b> | <b>\$ 683</b>   | <b>\$ 9</b>                       | <b>\$ 68,888</b> |

<sup>(1)</sup> Amounts represent period-end loans held for investment in each credit score category. 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.

<sup>(2)</sup> Includes PPP loans of \$538 million and \$919 million as of September 30, 2021 and December 31, 2020, respectively.

### Commercial Banking

The key credit quality indicator for our commercial loan portfolios is our internal risk ratings. 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 credit losses for commercial loans. Generally, loans 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 are also generally 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 our commercial banking portfolio of loans held for investment by internal risk ratings as of September 30, 2021 and December 31, 2020. The internal risk rating status includes all past due loans, both performing and nonperforming.

**Table 3.5: Commercial Banking Portfolio by Internal Risk Ratings**

| September 30, 2021                           |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
|--|------------------|------------------|------------------|-----------------|-----------------|-----------------|------------------|------------------|-----------------------------------|------------------|
| Term Loans by Vintage Year                   |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| (Dollars in millions)                        | 2021             | 2020             | 2019             | 2018            | 2017            | Prior           | Total Term Loans | Revolving Loans  | Revolving Loans Converted to Term | Total            |
| <b>Internal risk rating:<sup>(1)</sup></b>   |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Commercial and multifamily real estate       |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Noncriticized                                | \$ 3,663         | \$ 3,320         | \$ 3,984         | \$ 2,583        | \$ 924          | \$ 4,455        | \$ 18,929        | \$ 10,950        | \$ 0                              | \$ 29,879        |
| Criticized performing                        | 216              | 276              | 406              | 334             | 237             | 1,335           | 2,804            | 101              | 25                                | 2,930            |
| Criticized nonperforming                     | 0                | 0                | 8                | 29              | 10              | 240             | 287              | 0                | 0                                 | 287              |
| Total commercial and multifamily real estate | <u>3,879</u>     | <u>3,596</u>     | <u>4,398</u>     | <u>2,946</u>    | <u>1,171</u>    | <u>6,030</u>    | <u>22,020</u>    | <u>11,051</u>    | <u>25</u>                         | <u>33,096</u>    |
| Commercial and industrial                    |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Noncriticized                                | 8,064            | 7,519            | 6,200            | 3,219           | 1,913           | 3,677           | 30,592           | 12,677           | 70                                | 43,339           |
| Criticized performing                        | 150              | 169              | 881              | 260             | 184             | 153             | 1,797            | 702              | 0                                 | 2,499            |
| Criticized nonperforming                     | 43               | 57               | 83               | 42              | 8               | 18              | 251              | 63               | 0                                 | 314              |
| Total commercial and industrial              | <u>8,257</u>     | <u>7,745</u>     | <u>7,164</u>     | <u>3,521</u>    | <u>2,105</u>    | <u>3,848</u>    | <u>32,640</u>    | <u>13,442</u>    | <u>70</u>                         | <u>46,152</u>    |
| Total commercial banking <sup>(2)</sup>      | <u>\$ 12,136</u> | <u>\$ 11,341</u> | <u>\$ 11,562</u> | <u>\$ 6,467</u> | <u>\$ 3,276</u> | <u>\$ 9,878</u> | <u>\$ 54,660</u> | <u>\$ 24,493</u> | <u>\$ 95</u>                      | <u>\$ 79,248</u> |
| December 31, 2020                            |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Term Loans by Vintage Year                   |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| (Dollars in millions)                        | 2020             | 2019             | 2018             | 2017            | 2016            | Prior           | Total Term Loans | Revolving Loans  | Revolving Loans Converted to Term | Total            |
| <b>Internal risk rating:<sup>(1)</sup></b>   |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Commercial and multifamily real estate       |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Noncriticized                                | \$ 3,791         | \$ 4,932         | \$ 3,232         | \$ 1,437        | \$ 1,649        | \$ 4,904        | \$ 19,945        | \$ 7,114         | \$ 0                              | \$ 27,059        |
| Criticized performing                        | 320              | 446              | 515              | 355             | 391             | 1,258           | 3,285            | 112              | 25                                | 3,422            |
| Criticized nonperforming                     | 0                | 11               | 30               | 6               | 3               | 150             | 200              | 0                | 0                                 | 200              |
| Total commercial and multifamily real estate | <u>4,111</u>     | <u>5,389</u>     | <u>3,777</u>     | <u>1,798</u>    | <u>2,043</u>    | <u>6,312</u>    | <u>23,430</u>    | <u>7,226</u>     | <u>25</u>                         | <u>30,681</u>    |
| Commercial and industrial                    |                  |                  |                  |                 |                 |                 |                  |                  |                                   |                  |
| Noncriticized                                | 9,761            | 7,890            | 4,043            | 2,717           | 1,832           | 3,034           | 29,277           | 11,548           | 80                                | 40,905           |
| Criticized performing                        | 316              | 794              | 521              | 252             | 106             | 215             | 2,204            | 1,498            | 42                                | 3,744            |
| Criticized nonperforming                     | 74               | 108              | 25               | 51              | 9               | 0               | 267              | 183              | 0                                 | 450              |
| Total commercial and industrial              | <u>10,151</u>    | <u>8,792</u>     | <u>4,589</u>     | <u>3,020</u>    | <u>1,947</u>    | <u>3,249</u>    | <u>31,748</u>    | <u>13,229</u>    | <u>122</u>                        | <u>45,099</u>    |
| Total commercial banking <sup>(2)</sup>      | <u>\$ 14,262</u> | <u>\$ 14,181</u> | <u>\$ 8,366</u>  | <u>\$ 4,818</u> | <u>\$ 3,990</u> | <u>\$ 9,561</u> | <u>\$ 55,178</u> | <u>\$ 20,455</u> | <u>\$ 147</u>                     | <u>\$ 75,780</u> |

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

<sup>(2)</sup> Includes PPP loans of \$182 million and \$238 million as of September 30, 2021 and December 31, 2020, respectively.

## Troubled Debt Restructurings

Additional guidance issued by the Federal Banking Agencies and contained in the Coronavirus Aid, Relief, and Economic Security Act provides banking organizations with troubled debt restructurings (“TDRs”) relief for modifications of current borrowers impacted by the COVID-19 pandemic. In adherence with the guidance, we assessed all loan modifications introduced to current borrowers in response to the COVID-19 pandemic through September 30, 2021, that would have been designated as TDRs under our existing policies, and followed guidance that any such eligible loan modifications made on a temporary and good faith basis are not considered TDRs. We consider the impact of all loan modifications, including those classified as TDRs and those offered in response to the COVID-19 pandemic, when estimating the credit quality of our loan portfolio and establishing allowance levels. For our Commercial Banking customers, enrollment in a customer assistance program is also considered in the assignment of an internal risk rating.

Total recorded TDRs were \$1.7 billion and \$2.1 billion as of September 30, 2021 and December 31, 2020, respectively. TDRs classified as performing in our credit card and consumer banking loan portfolios totaled \$1.1 billion and \$1.3 billion as of September 30, 2021 and December 31, 2020, respectively. TDRs classified as performing in our commercial banking loan portfolio totaled \$231 million and \$442 million as of September 30, 2021 and December 31, 2020, respectively. Commitments to lend additional funds on loans modified in TDRs totaled \$164 million and \$173 million as of September 30, 2021 and December 31, 2020, respectively.

### Loans Modified in TDRs

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, amortized cost amounts and financial effects of loans modified in TDRs during the three and nine months ended September 30, 2021 and 2020.

**Table 3.6: Troubled Debt Restructurings**

| (Dollars in millions)                  | Total Loans Modified <sup>(1)</sup> | Three Months Ended September 30, 2021 |                        |                                  |                                 |
|--|-------------------------------------|---------------------------------------|------------------------|----------------------------------|---------------------------------|
|  |                                     | Reduced Interest Rate                 |                        | Term Extension                   |                                 |
|  |                                     | % of TDR Activity <sup>(2)</sup>      | Average Rate Reduction | % of TDR Activity <sup>(2)</sup> | Average Term Extension (Months) |
| <b>Credit Card:</b>                    |                                     |                                       |                        |                                  |                                 |
| Domestic credit card                   | \$ 37                               | 100 %                                 | 15.80 %                | 0 %                              | 0                               |
| International card businesses          | 28                                  | 100                                   | 27.75                  | 0                                | 0                               |
| Total credit card                      | 65                                  | 100                                   | 20.90                  | 0                                | 0                               |
| <b>Consumer Banking:</b>               |                                     |                                       |                        |                                  |                                 |
| Auto                                   | 89                                  | 48                                    | 8.54                   | 92                               | 4                               |
| Total consumer banking                 | 89                                  | 48                                    | 8.54                   | 92                               | 4                               |
| <b>Commercial Banking:</b>             |                                     |                                       |                        |                                  |                                 |
| Commercial and multifamily real estate | 21                                  | 14                                    | 2.50                   | 100                              | 12                              |
| Commercial and industrial              | 4                                   | 0                                     | 0.00                   | 100                              | 4                               |
| Total commercial banking               | 25                                  | 12                                    | 2.50                   | 100                              | 11                              |
| Total                                  | \$ 179                              | 61                                    | 68.95                  | 59                               | 6                               |

|  |    | Nine Months Ended September 30, 2021 |                                  |                        |                                  |                                 |                                  |                         |
|--|----|--------------------------------------|----------------------------------|------------------------|----------------------------------|---------------------------------|----------------------------------|-------------------------|
|  |    | Reduced Interest Rate                |                                  | Term Extension         |                                  | Balance Reduction               |                                  |                         |
| <i>(Dollars in millions)</i>           |    | Total Loans Modified <sup>(1)</sup>  | % of TDR Activity <sup>(2)</sup> | Average Rate Reduction | % of TDR Activity <sup>(2)</sup> | Average Term Extension (Months) | % of TDR Activity <sup>(2)</sup> | Gross Balance Reduction |
| <b>Credit Card:</b>                    |    |                                      |                                  |                        |                                  |                                 |                                  |                         |
| Domestic credit card                   | \$ | 114                                  | 100 %                            | 16.00 %                | 0 %                              | 0                               | 0 %                              | \$ 0                    |
| International card businesses          |    | 94                                   | 100                              | 27.66                  | 0                                | 0                               | 0                                | 0                       |
| Total credit card                      |    | 208                                  | 100                              | 21.26                  | 0                                | 0                               | 0                                | 0                       |
| <b>Consumer Banking:</b>               |    |                                      |                                  |                        |                                  |                                 |                                  |                         |
| Auto                                   |    | 269                                  | 40                               | 8.74                   | 93                               | 4                               | 0                                | 1                       |
| Retail banking                         |    | 1                                    | 20                               | 2.55                   | 36                               | 67                              | 0                                | 0                       |
| Total consumer banking                 |    | 270                                  | 40                               | 8.72                   | 93                               | 4                               | 0                                | 1                       |
| <b>Commercial Banking:</b>             |    |                                      |                                  |                        |                                  |                                 |                                  |                         |
| Commercial and multifamily real estate |    | 41                                   | 7                                | 1.29                   | 100                              | 13                              | 0                                | 0                       |
| Commercial and industrial              |    | 82                                   | 0                                | 0.00                   | 41                               | 8                               | 0                                | 0                       |
| Total commercial banking               |    | 123                                  | 2                                | 1.29                   | 61                               | 11                              | 0                                | 0                       |
| Total                                  | \$ | 601                                  | 53                               | 16.84                  | 54                               | 5                               | 0                                | \$ 1                    |

|  |    | Three Months Ended September 30, 2020 |                                  |                        |                                  |                                 |                                  |                         |
|--|----|---------------------------------------|----------------------------------|------------------------|----------------------------------|---------------------------------|----------------------------------|-------------------------|
|  |    | Reduced Interest Rate                 |                                  | Term Extension         |                                  | Balance Reduction               |                                  |                         |
| <i>(Dollars in millions)</i>           |    | Total Loans Modified <sup>(1)</sup>   | % of TDR Activity <sup>(2)</sup> | Average Rate Reduction | % of TDR Activity <sup>(2)</sup> | Average Term Extension (Months) | % of TDR Activity <sup>(2)</sup> | Gross Balance Reduction |
| <b>Credit Card:</b>                    |    |                                       |                                  |                        |                                  |                                 |                                  |                         |
| Domestic credit card                   | \$ | 50                                    | 100 %                            | 15.53 %                | 0 %                              | 0                               | 0 %                              | \$ 0                    |
| International card businesses          |    | 39                                    | 100                              | 27.89                  | 0                                | 0                               | 0                                | 0                       |
| Total credit card                      |    | 89                                    | 100                              | 20.94                  | 0                                | 0                               | 0                                | 0                       |
| <b>Consumer Banking:</b>               |    |                                       |                                  |                        |                                  |                                 |                                  |                         |
| Auto                                   |    | 133                                   | 3                                | 4.83                   | 94                               | 2                               | 0                                | 1                       |
| Retail banking                         |    | 1                                     | 85                               | 3.24                   | 15                               | 61                              | 0                                | 0                       |
| Total consumer banking                 |    | 134                                   | 4                                | 4.75                   | 94                               | 2                               | 0                                | 1                       |
| <b>Commercial Banking:</b>             |    |                                       |                                  |                        |                                  |                                 |                                  |                         |
| Commercial and multifamily real estate |    | 57                                    | 0                                | 0.00                   | 100                              | 4                               | 0                                | 0                       |
| Commercial and industrial              |    | 201                                   | 0                                | 0.00                   | 54                               | 32                              | 0                                | 0                       |
| Total commercial banking               |    | 258                                   | 0                                | 0.00                   | 64                               | 23                              | 0                                | 0                       |
| Total                                  | \$ | 481                                   | 19                               | 20.08                  | 61                               | 14                              | 0                                | \$ 1                    |

|  |                                     | Nine Months Ended September 30, 2020 |                        |                                  |                                 |                                  |                         |
|--|-------------------------------------|--------------------------------------|------------------------|----------------------------------|---------------------------------|----------------------------------|-------------------------|
|  |                                     | Reduced Interest Rate                |                        | Term Extension                   |                                 | Balance Reduction                |                         |
| (Dollars in millions)                  | Total Loans Modified <sup>(1)</sup> | % of TDR Activity <sup>(2)</sup>     | Average Rate Reduction | % of TDR Activity <sup>(2)</sup> | Average Term Extension (Months) | % of TDR Activity <sup>(2)</sup> | Gross Balance Reduction |
| <b>Credit Card:</b>                    |                                     |                                      |                        |                                  |                                 |                                  |                         |
| Domestic credit card                   | \$ 195                              | 100 %                                | 15.92 %                | 0 %                              | 0                               | 0 %                              | \$ 0                    |
| International card businesses          | 118                                 | 100                                  | 27.33                  | 0                                | 0                               | 0                                | 0                       |
| Total credit card                      | 313                                 | 100                                  | 20.22                  | 0                                | 0                               | 0                                | 0                       |
| <b>Consumer Banking:</b>               |                                     |                                      |                        |                                  |                                 |                                  |                         |
| Auto                                   | 393                                 | 9                                    | 3.68                   | 95                               | 3                               | 0                                | 1                       |
| Retail banking                         | 5                                   | 9                                    | 10.85                  | 15                               | 8                               | 0                                | 0                       |
| Total consumer banking                 | 398                                 | 9                                    | 3.76                   | 94                               | 3                               | 0                                | 1                       |
| <b>Commercial Banking:</b>             |                                     |                                      |                        |                                  |                                 |                                  |                         |
| Commercial and multifamily real estate | 85                                  | 0                                    | 0.00                   | 100                              | 6                               | 0                                | 0                       |
| Commercial and industrial              | 389                                 | 0                                    | 0.00                   | 52                               | 21                              | 4                                | 7                       |
| Total commercial banking               | 474                                 | 0                                    | 0.00                   | 61                               | 16                              | 3                                | 7                       |
| <b>Total</b>                           | <b>\$ 1,185</b>                     | <b>29</b>                            | <b>18.49</b>           | <b>56</b>                        | <b>9</b>                        | <b>1</b>                         | <b>\$ 8</b>             |

<sup>(1)</sup> Represents the amortized cost of total loans modified in TDRs at the end of the period in which they were modified. 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.

<sup>(2)</sup> Due to multiple concessions granted to some troubled borrowers, percentages may total more than 100% for certain loan types.

### Subsequent Defaults of Completed TDR Modifications

The following table presents the type, number and amortized cost 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.

**Table 3.7: TDRs—Subsequent Defaults**

| (Dollars in millions)                  | Three Months Ended September 30, |              |                     |              | Nine Months Ended September 30, |               |                     |               |
|--|----------------------------------|--------------|---------------------|--------------|---------------------------------|---------------|---------------------|---------------|
|  | 2021                             |              | 2020                |              | 2021                            |               | 2020                |               |
|  | Number of Contracts              | Amount       | Number of Contracts | Amount       | Number of Contracts             | Amount        | Number of Contracts | Amount        |
| <b>Credit Card:</b>                    |                                  |              |                     |              |                                 |               |                     |               |
| Domestic credit card                   | 4,168                            | \$ 7         | 6,554               | \$ 14        | 13,528                          | \$ 25         | 27,022              | \$ 57         |
| International card businesses          | 12,680                           | 17           | 10,673              | 17           | 44,709                          | 68            | 46,038              | 68            |
| Total credit card                      | 16,848                           | 24           | 17,227              | 31           | 58,237                          | 93            | 73,060              | 125           |
| <b>Consumer Banking:</b>               |                                  |              |                     |              |                                 |               |                     |               |
| Auto                                   | 2,151                            | 34           | 1,307               | 15           | 6,453                           | 98            | 3,442               | 42            |
| Retail banking                         | 1                                | 0            | 3                   | 1            | 9                               | 0             | 7                   | 1             |
| Total consumer banking                 | 2,152                            | 34           | 1,310               | 16           | 6,462                           | 98            | 3,449               | 43            |
| <b>Commercial Banking:</b>             |                                  |              |                     |              |                                 |               |                     |               |
| Commercial and multifamily real estate | 0                                | 0            | 0                   | 0            | 1                               | 50            | 0                   | 0             |
| Commercial and industrial              | 1                                | 38           | 4                   | 16           | 7                               | 120           | 11                  | 65            |
| Total commercial banking               | 1                                | 38           | 4                   | 16           | 8                               | 170           | 11                  | 65            |
| <b>Total</b>                           | <b>19,001</b>                    | <b>\$ 96</b> | <b>18,541</b>       | <b>\$ 63</b> | <b>64,707</b>                   | <b>\$ 361</b> | <b>76,520</b>       | <b>\$ 233</b> |

### Loans Pledged

We pledged loan collateral of \$10.9 billion and \$14.1 billion to secure the majority of our FHLB borrowing capacity of \$18.8 billion and \$19.6 billion as of September 30, 2021 and December 31, 2020, respectively. We also pledged loan collateral of \$26.6 billion and \$25.5 billion to secure our Federal Reserve Discount Window borrowing capacity of \$19.9 billion and \$20.0 billion as of September 30, 2021 and December 31, 2020, respectively. In addition to loans pledged, we have securitized a portion of our credit card and auto loan portfolios. See “Note 5—Variable Interest Entities and Securitizations” for additional information.

### Revolving Loans Converted to Term Loans

For the three and nine months ended September 30, 2021, we converted \$37 million and \$172 million of revolving loans to term loans, respectively, primarily in our domestic credit card and commercial banking loan portfolios. For the three and nine months ended September 30, 2020, we converted \$250 million and \$499 million of revolving loans to term loans, respectively, primarily in our domestic credit card and commercial banking loan portfolios.

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**NOTE 4—ALLOWANCE FOR CREDIT LOSSES AND RESERVE FOR UNFUNDED LENDING COMMITMENTS**

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Our allowance for credit losses represents management’s current estimate of expected credit losses over the contractual terms of our loans held for investment as of each balance sheet date. Expected recoveries of amounts previously charged off or expected to be charged off are recognized within the allowance. When developing an estimate of expected credit losses, we use both quantitative and qualitative methods in considering all available information relevant to assessing collectability. This may include internal information, external information or a combination of both relating to past events, current conditions, and reasonable and supportable forecasts. Management will consider and may qualitatively adjust for conditions, changes and trends in loan portfolios that may not be captured in modeled results. These adjustments are referred to as qualitative factors and represent management’s judgment of the imprecision and risks inherent in the processes and assumptions used in establishing the allowance for credit losses. Significant judgment is applied in our estimation of lifetime credit losses.

We have unfunded lending commitments in our Commercial Banking business that are not unconditionally cancellable by us and for which we estimate expected credit losses in establishing a reserve. This reserve is measured using the same measurement objectives as the allowance for loans held for investment. We build or release the reserve for unfunded lending commitments through 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 2020 Form 10-K for further discussion of the methodology and policy for determining our allowance for credit losses for each of our loan portfolio segments, as well as information on our reserve for unfunded lending commitments.

**Allowance for Credit Losses and Reserve for Unfunded Lending Commitments Activity**

The table below summarizes changes in the allowance for credit losses and reserve for unfunded lending commitments by portfolio segment for the three and nine months ended September 30, 2021 and 2020. Our allowance for credit losses decreased by \$4.0 billion to \$11.6 billion as of September 30, 2021 from December 31, 2020, primarily driven by strong credit performance and improved economic outlook.

**Table 4.1: Allowance for Credit Losses and Reserve for Unfunded Lending Commitments Activity**

| <i>(Dollars in millions)</i>                                   | Three Months Ended September 30, 2021 |                  |                    |                  |
|--|---------------------------------------|------------------|--------------------|------------------|
|  | Credit Card                           | Consumer Banking | Commercial Banking | Total            |
| <b>Allowance for credit losses:</b>                            |                                       |                  |                    |                  |
| Balance as of June 30, 2021                                    | \$ 8,873                              | \$ 2,203         | \$ 1,270           | \$ 12,346        |
| Charge-offs  | (735)                                 | (264)            | (20)               | (1,019)          |
| Recoveries <sup>(1)</sup>                                      | 369                                   | 213              | 11                 | 593              |
| Net charge-offs  | (366)                                 | (51)             | (9)                | (426)            |
| Provision (benefit) for credit losses                          | (198)                                 | (91)             | (55)               | (344)            |
| Allowance build (release) for credit losses                    | (564)                                 | (142)            | (64)               | (770)            |
| Other changes <sup>(4)</sup>                                   | (3)                                   | 0                | 0                  | (3)              |
| Balance as of September 30, 2021                               | <u>8,306</u>                          | <u>2,061</u>     | <u>1,206</u>       | <u>11,573</u>    |
| <b>Reserve for unfunded lending commitments:</b>               |                                       |                  |                    |                  |
| Balance as of June 30, 2021                                    | 0                                     | 0                | 164                | 164              |
| Provision (benefit) for losses on unfunded lending commitments | 0                                     | 0                | 2                  | 2                |
| Balance as of September 30, 2021                               | <u>0</u>                              | <u>0</u>         | <u>166</u>         | <u>166</u>       |
| <b>Combined allowance and reserve as of September 30, 2021</b> | <u>\$ 8,306</u>                       | <u>\$ 2,061</u>  | <u>\$ 1,372</u>    | <u>\$ 11,739</u> |

| <i>(Dollars in millions)</i>                                   | Nine Months Ended September 30, 2021 |                  |                    |                  |
|--|--------------------------------------|------------------|--------------------|------------------|
|  | Credit Card                          | Consumer Banking | Commercial Banking | Total            |
| <b>Allowance for credit losses:</b>                            |                                      |                  |                    |                  |
| Balance as of December 31, 2020                                | \$ 11,191                            | \$ 2,715         | \$ 1,658           | \$ 15,564        |
| Charge-offs  | (2,695)                              | (866)            | (47)               | (3,608)          |
| Recoveries <sup>(1)</sup>                                      | 1,125                                | 735              | 41                 | 1,901            |
| Net charge-offs  | (1,570)                              | (131)            | (6)                | (1,707)          |
| Provision (benefit) for credit losses                          | (1,325)                              | (523)            | (446)              | (2,294)          |
| Allowance build (release) for credit losses                    | (2,895)                              | (654)            | (452)              | (4,001)          |
| Other changes <sup>(4)</sup>                                   | 10                                   | 0                | 0                  | 10               |
| Balance as of September 30, 2021                               | <u>8,306</u>                         | <u>2,061</u>     | <u>1,206</u>       | <u>11,573</u>    |
| <b>Reserve for unfunded lending commitments:</b>               |                                      |                  |                    |                  |
| Balance as of December 31, 2020                                | 0                                    | 0                | 195                | 195              |
| Provision (benefit) for losses on unfunded lending commitments | 0                                    | 0                | (29)               | (29)             |
| Balance as of September 30, 2021                               | <u>0</u>                             | <u>0</u>         | <u>166</u>         | <u>166</u>       |
| <b>Combined allowance and reserve as of September 30, 2021</b> | <u>\$ 8,306</u>                      | <u>\$ 2,061</u>  | <u>\$ 1,372</u>    | <u>\$ 11,739</u> |

| <i>(Dollars in millions)</i>                                   | <b>Three Months Ended September 30, 2020</b> |                         |                           |                  |
|--|--|-------------------------|---------------------------|------------------|
|  | <b>Credit Card</b>                           | <b>Consumer Banking</b> | <b>Commercial Banking</b> | <b>Total</b>     |
| <b>Allowance for credit losses:</b>                            |  |                         |                           |                  |
| Balance as of June 30, 2020                                    | \$ 12,091                                    | \$ 2,838                | \$ 1,903                  | \$ 16,832        |
| Charge-offs  | (1,296)                                      | (295)                   | (88)                      | (1,679)          |
| Recoveries <sup>(1)</sup>                                      | 353  | 247                     | 6                         | 606              |
| Net charge-offs  | (943)  | (48)                    | (82)                      | (1,073)          |
| Provision (benefit) for credit losses                          | 450  | (43)                    | (51)                      | 356              |
| Allowance build (release) for credit losses                    | (493)  | (91)                    | (133)                     | (717)            |
| Other changes <sup>(2)</sup>                                   | 14   | 0                       | 0                         | 14               |
| Balance as of September 30, 2020                               | 11,612                                       | 2,747                   | 1,770                     | 16,129           |
| <b>Reserve for unfunded lending commitments:</b>               |  |                         |                           |                  |
| Balance as of June 30, 2020                                    | 0  | 0                       | 218                       | 218              |
| Provision (benefit) for losses on unfunded lending commitments | 0  | 0                       | (23)                      | (23)             |
| Balance as of September 30, 2020                               | 0  | 0                       | 195                       | 195              |
| <b>Combined allowance and reserve as of September 30, 2020</b> | <b>\$ 11,612</b>                             | <b>\$ 2,747</b>         | <b>\$ 1,965</b>           | <b>\$ 16,324</b> |

| <i>(Dollars in millions)</i>                                   | <b>Nine Months Ended September 30, 2020</b> |                         |                           |                  |
|--|---|-------------------------|---------------------------|------------------|
|  | <b>Credit Card</b>                          | <b>Consumer Banking</b> | <b>Commercial Banking</b> | <b>Total</b>     |
| <b>Allowance for credit losses:</b>                            |   |                         |                           |                  |
| Balance as of December 31, 2019                                | \$ 5,395                                    | \$ 1,038                | \$ 775                    | \$ 7,208         |
| Cumulative effects from adoption of the CECL standard          | 2,241                                       | 502                     | 102                       | 2,845            |
| Finance charge and fee reserve reclassification <sup>(3)</sup> | 462   | 0                       | 0                         | 462              |
| Balance as of January 1, 2020                                  | 8,098                                       | 1,540                   | 877                       | 10,515           |
| Charge-offs  | (4,757)                                     | (1,207)                 | (303)                     | (6,267)          |
| Recoveries <sup>(1)</sup>                                      | 1,167                                       | 721                     | 10                        | 1,898            |
| Net charge-offs  | (3,590)                                     | (486)                   | (293)                     | (4,369)          |
| Provision (benefit) for credit losses                          | 7,096                                       | 1,693                   | 1,186                     | 9,975            |
| Allowance build (release) for credit losses                    | 3,506                                       | 1,207                   | 893                       | 5,606            |
| Other changes <sup>(2)</sup>                                   | 8   | 0                       | 0                         | 8                |
| Balance as of September 30, 2020                               | 11,612                                      | 2,747                   | 1,770                     | 16,129           |
| <b>Reserve for unfunded lending commitments:</b>               |   |                         |                           |                  |
| Balance as of December 31, 2019                                | 0   | 5                       | 130                       | 135              |
| Cumulative effects from adoption of the CECL standard          | 0   | (5)                     | 42                        | 37               |
| Balance as of January 1, 2020                                  | 0   | 0                       | 172                       | 172              |
| Provision (benefit) for losses on unfunded lending commitments | 0   | 0                       | 23                        | 23               |
| Balance as of September 30, 2020                               | 0   | 0                       | 195                       | 195              |
| <b>Combined allowance and reserve as of September 30, 2020</b> | <b>\$ 11,612</b>                            | <b>\$ 2,747</b>         | <b>\$ 1,965</b>           | <b>\$ 16,324</b> |

<sup>(1)</sup> The amount and timing of recoveries are impacted by our collection strategies, which are based on customer behavior and risk profile and include direct customer communications, repossession of collateral, the periodic sale of charged off loans as well as additional strategies, such as litigation.

<sup>(2)</sup> Represents foreign currency translation adjustments.

<sup>(3)</sup> Concurrent with our adoption of the CECL standard in the first quarter of 2020, we reclassified our finance charge and fee reserve to our allowance for credit losses, with a corresponding increase to credit card loans held for investment.

<sup>(4)</sup> Represents foreign currency translation adjustments and an initial allowance for purchased credit-deteriorated loans of \$6 million.

### Credit Card Partnership Loss Sharing Arrangements

We have certain credit card partnership agreements that are presented within our consolidated financial statements on a net basis, in which our partner agrees to share a portion of the credit losses on the underlying loan portfolio. The expected reimbursements from these partners are netted against our allowance for credit losses. Our methodology for estimating reimbursements is consistent with the methodology we use to estimate the allowance for credit losses on our credit card loan receivables. These expected reimbursements result in reductions to net charge-offs and the provision for credit losses. See “Note 1—Summary of Significant Accounting Policies” in our 2020 Form 10-K for further discussion of our credit card partnership agreements.

The table below summarizes the changes in the estimated reimbursements from these partners for the three and nine months ended September 30, 2021 and 2020.

**Table 4.2: Summary of Credit Card Partnership Loss Sharing Arrangements Impacts**

| <i>(Dollars in millions)</i>   | <b>Three Months Ended September 30,</b> |                 |
|--|---|-----------------|
|  | <b>2021</b>                             | <b>2020</b>     |
| Estimated reimbursements from partners, beginning of period                                  | \$ 1,711                                | \$ 2,433        |
| Amounts due from partners which reduced net charge-offs                                      | (80)                                    | (212)           |
| Amounts estimated to be charged (from) to partners which reduced provision for credit losses | (181)                                   | 121             |
| Estimated reimbursements from partners, end of period  | <u>\$ 1,450</u>                         | <u>\$ 2,342</u> |

  

| <i>(Dollars in millions)</i>   | <b>Nine Months Ended September 30,</b> |                 |
|--|--|-----------------|
|  | <b>2021</b>                            | <b>2020</b>     |
| Estimated reimbursements from partners, beginning of period                                  | \$ 2,159                               | \$ 2,166        |
| Amounts due from partners which reduced net charge-offs                                      | (349)                                  | (807)           |
| Amounts estimated to be charged (from) to partners which reduced provision for credit losses | (360)                                  | 983             |
| Estimated reimbursements from partners, end of period  | <u>\$ 1,450</u>                        | <u>\$ 2,342</u> |

## NOTE 5—VARIABLE INTEREST ENTITIES AND SECURITIZATIONS

In the normal course of business, we enter into various types of transactions with entities that are considered to be variable interest entities (“VIEs”). Our primary involvement with VIEs is related to our securitization transactions in which we transfer assets to securitization trusts. We primarily securitize credit card and auto loans, which have provided a source of funding for us and enabled us to transfer a certain portion of the economic risk of the loans or related debt securities to third parties.

The entity that has a controlling financial interest in a VIE is referred to as the primary beneficiary and is required to consolidate the VIE. The majority of the VIEs in which we are involved have been consolidated in our financial statements.

### Summary of Consolidated and Unconsolidated VIEs

The assets of our consolidated VIEs primarily consist of cash, loan receivables and the related allowance for credit losses, which we report on our consolidated balance sheets under restricted cash for securitization investors, loans held in consolidated trusts and allowance for credit losses, respectively. The assets of a particular VIE are the primary source of funds to settle its obligations. Creditors of these VIEs typically do not have recourse to our general credit. Liabilities primarily consist of debt securities issued by the VIEs, which we report under securitized debt obligations on our consolidated balance sheets. For unconsolidated VIEs, we present the carrying amount of assets and liabilities reflected on our consolidated balance sheets and our maximum exposure to loss. Our maximum exposure to loss is estimated based on the unlikely event that all of the assets in the VIEs become worthless and we are required to meet our maximum remaining funding obligations.

The tables below present a summary of VIEs in which we had continuing involvement or held a significant variable interest, aggregated based on VIEs with similar characteristics as of September 30, 2021 and December 31, 2020. We separately present information for consolidated and unconsolidated VIEs.

**Table 5.1: Carrying Amount of Consolidated and Unconsolidated VIEs**

|   | September 30, 2021        |                                |                           |                                |                          |
|---|---------------------------|--------------------------------|---------------------------|--------------------------------|--------------------------|
|   | Consolidated              |                                | Unconsolidated            |                                |                          |
|   | Carrying Amount of Assets | Carrying Amount of Liabilities | Carrying Amount of Assets | Carrying Amount of Liabilities | Maximum Exposure to Loss |
| <i>(Dollars in millions)</i>                                      |                           |                                |                           |                                |                          |
| <b>Securitization-Related VIEs:<sup>(1)</sup></b>                 |                           |                                |                           |                                |                          |
| Credit card loan securitizations <sup>(2)</sup>                   | \$ 20,604                 | \$ 11,489                      | \$ 0                      | \$ 0                           | \$ 0                     |
| Auto loan securitizations   | 1,509                     | 1,269                          | 0                         | 0                              | 0                        |
| Total securitization-related VIEs                                 | 22,113                    | 12,758                         | 0                         | 0                              | 0                        |
| <b>Other VIEs:<sup>(3)</sup></b>                                  |                           |                                |                           |                                |                          |
| Affordable housing entities                                       | 264                       | 28                             | 4,786                     | 1,496                          | 4,786                    |
| Entities that provide capital to low-income and rural communities | 2,073                     | 26                             | 0                         | 0                              | 0                        |
| Other   | 0                         | 0                              | 400                       | 0                              | 400                      |
| Total other VIEs  | 2,337                     | 54                             | 5,186                     | 1,496                          | 5,186                    |
| Total VIEs  | \$ 24,450                 | \$ 12,812                      | \$ 5,186                  | \$ 1,496                       | \$ 5,186                 |

|   | December 31, 2020               |                                      |                                 |                                      |                                |
|---|---------------------------------|--------------------------------------|---------------------------------|--------------------------------------|--------------------------------|
|   | Consolidated                    |                                      | Unconsolidated                  |                                      |                                |
|   | Carrying<br>Amount<br>of Assets | Carrying<br>Amount of<br>Liabilities | Carrying<br>Amount<br>of Assets | Carrying<br>Amount of<br>Liabilities | Maximum<br>Exposure to<br>Loss |
| <i>(Dollars in millions)</i>                                      |                                 |                                      |                                 |                                      |                                |
| <b>Securitization-Related VIEs:<sup>(1)</sup></b>                 |                                 |                                      |                                 |                                      |                                |
| Credit card loan securitizations <sup>(2)</sup>                   | \$ 22,066                       | \$ 10,338                            | \$ 0                            | \$ 0                                 | \$ 0                           |
| Auto loan securitizations   | 2,360                           | 2,055                                | 0                               | 0                                    | 0                              |
| Total securitization-related VIEs                                 | 24,426                          | 12,393                               | 0                               | 0                                    | 0                              |
| <b>Other VIEs:<sup>(3)</sup></b>                                  |                                 |                                      |                                 |                                      |                                |
| Affordable housing entities                                       | 242                             | 17                                   | 4,602                           | 1,240                                | 4,602                          |
| Entities that provide capital to low-income and rural communities | 1,951                           | 26                                   | 0                               | 0                                    | 0                              |
| Other   | 0                               | 0                                    | 436                             | 0                                    | 436                            |
| Total other VIEs  | 2,193                           | 43                                   | 5,038                           | 1,240                                | 5,038                          |
| Total VIEs  | \$ 26,619                       | \$ 12,436                            | \$ 5,038                        | \$ 1,240                             | \$ 5,038                       |

<sup>(1)</sup> Excludes insignificant VIEs from previously exited businesses.

<sup>(2)</sup> Represents the carrying amount of assets and liabilities owned by the VIE, which includes the seller's interest and repurchased notes held by other related parties.

<sup>(3)</sup> In certain investment structures, we consolidate a VIE which in turn holds as its primary asset an investment in an unconsolidated VIE. In these instances, we disclose the carrying amount of assets and liabilities on our consolidated balance sheets as unconsolidated VIEs to avoid duplicating our exposure, as the unconsolidated VIEs are generally the operating entities generating the exposure. The carrying amount of assets and liabilities included in the unconsolidated VIE columns above related to these investment structures were \$2.2 billion of assets and \$602 million of liabilities as of September 30, 2021, and \$2.3 billion of assets and \$596 million of liabilities as of December 31, 2020.

### Securitization-Related VIEs

In a securitization transaction, assets are transferred to a trust, which generally meets the definition of a VIE. We engage in securitization activities as an issuer and an investor. Our primary securitization issuance activity includes credit card and auto securitizations, conducted through securitization trusts which we consolidate. Our continuing involvement in these securitization transactions mainly consists of acting as the primary servicer and holding certain retained interests.

In our multifamily agency business, we originate multifamily commercial real estate loans and transfer them to Government-sponsored enterprise ("GSEs") who may, in turn, securitize them. We retain the related mortgage servicing rights ("MSRs") and service the transferred loans pursuant to the guidelines set forth by the GSEs. As an investor, we hold primarily RMBS, CMBS, and ABS in our investment securities portfolio, which represent variable interests in the respective securitization trusts from which those securities were issued. We do not consolidate the securitization trusts employed in these transactions as we do not have the power to direct the activities that most significantly impact the economic performance of these securitization trusts. We exclude these VIEs from the tables within this note because we do not consider our continuing involvement with these VIEs to be significant as we either invest in securities issued by the VIE and were not involved in the design of the VIE or no transfers have occurred between the VIE and us. Our maximum exposure to loss as a result of our involvement with these VIEs is the carrying value of the MSRs and investment securities on our consolidated balance sheets as well as our contractual obligations under loss sharing arrangements. See "Note 6—Goodwill and Intangible Assets" for information related to our MSRs associated with these securitizations and "Note 2—Investment Securities" for more information on the securities held in our investment securities portfolio. In addition, where we have certain lending arrangements in the normal course of business with entities that could be VIEs, we have also excluded these VIEs from the tables presented in this note. See "Note 3—Loans" for additional information regarding our lending arrangements in the normal course of business.

The table below presents our continuing involvement in certain securitization-related VIEs as of September 30, 2021 and December 31, 2020.

**Table 5.2: Continuing Involvement in Securitization-Related VIEs**

| <i>(Dollars in millions)</i>               | Credit Card | Auto     |
|--|-------------|----------|
| <b>September 30, 2021:</b>                 |             |          |
| Securities held by third-party investors   | \$ 11,367   | \$ 1,268 |
| Receivables in the trusts                  | 21,496      | 1,419    |
| Cash balance of spread or reserve accounts | 0           | 10       |
| Retained interests                         | Yes         | Yes      |
| Servicing retained                         | Yes         | Yes      |
| <b>December 31, 2020:</b>                  |             |          |
| Securities held by third-party investors   | \$ 10,361   | \$ 2,053 |
| Receivables in the trust                   | 23,683      | 2,243    |
| Cash balance of spread or reserve accounts | 0           | 10       |
| Retained interests                         | Yes         | Yes      |
| Servicing retained                         | Yes         | Yes      |

### ***Credit Card Securitizations***

We securitize a portion of our credit card loans which provides a source of funding for us. Credit card securitizations involve the transfer of credit card receivables to securitization trusts. These trusts then issue debt securities collateralized by the transferred receivables to third-party investors. We hold certain retained interests in our credit card securitizations and continue to service the receivables in these trusts. We consolidate these trusts because we are deemed to be the primary beneficiary as we have the power to direct the activities that most significantly impact the economic performance of the trusts, and the right to receive benefits or the obligation to absorb losses that could potentially be significant to the trusts.

### ***Auto Securitizations***

Similar to our credit card securitizations, we securitize a portion of our auto loans which provides a source of funding for us. Auto securitization involves the transfer of auto loans to securitization trusts. These trusts then issue debt securities collateralized by the transferred loans to third-party investors. We hold certain retained interests and continue to service the loans in these trusts. We consolidate these trusts because we are deemed to be the primary beneficiary as we have the power to direct the activities that most significantly impact the economic performance of the trusts, and the right to receive benefits or the obligation to absorb losses that could potentially be significant to the trusts.

### **Other VIEs**

#### ***Affordable Housing Entities***

As part of our community reinvestment initiatives, we invest in private investment funds that make equity investments in multifamily affordable housing properties. We receive affordable housing tax credits for these investments. The activities of these entities are financed with a combination of invested equity capital and debt. We account for certain investments in qualified affordable housing projects using the proportional amortization method if certain criteria are met. The proportional amortization method amortizes the cost of the investment over the period in which the investor expects to receive tax credits and other tax benefits, and the resulting amortization is recognized as a component of income tax expense attributable to continuing operations. For the nine months ended September 30, 2021 and 2020, we recognized amortization of \$477 million and \$428 million, respectively, and tax credits of \$560 million and \$47 million, respectively, associated with these investments within income tax provision or benefit. The carrying value of our equity investments in these qualified affordable housing projects was \$4.7 billion and \$4.5 billion as of September 30, 2021 and December 31, 2020, respectively. We are periodically required to provide additional financial or other support during the period of the investments. Our liability for these unfunded

commitments was \$1.7 billion and \$1.5 billion as of September 30, 2021 and December 31, 2020, respectively, and is largely expected to be paid from 2021 to 2024.

For those investment funds considered to be VIEs, we are not required to consolidate them if we do not have the power to direct the activities that most significantly impact the economic performance of those entities. We record our interests in these unconsolidated VIEs in loans held for investment, other assets and other liabilities on our consolidated balance sheets. Our maximum exposure to these entities is limited to our variable interests in the entities which consisted of assets of approximately \$4.8 billion and \$4.6 billion as of September 30, 2021 and December 31, 2020, respectively. The creditors of the VIEs have no recourse to our general credit and we do not provide additional financial or other support other than during the period that we are contractually required to provide it. The total assets of the unconsolidated VIE investment funds were approximately \$11.9 billion and \$11.0 billion as of September 30, 2021 and December 31, 2020, respectively.

#### ***Entities that Provide Capital to Low-Income and Rural Communities***

We hold variable interests in entities (“Investor Entities”) that invest in community development entities (“CDEs”) that provide debt financing to businesses and non-profit entities in low-income and rural communities. Variable interests in the CDEs held by the consolidated Investor Entities are also our variable interests. The activities of the Investor Entities are financed with a combination of invested equity capital and debt. The activities of the CDEs are financed solely with invested equity capital. We receive federal and state tax credits for these investments. We consolidate the VIEs in which we have the power to direct the activities that most significantly impact the VIE’s economic performance and where we have the obligation to absorb losses or right to receive benefits that could be potentially significant to the VIE. We consolidate other investments and CDEs that are not considered to be VIEs, but where we hold a controlling financial interest. The assets of the VIEs that we consolidated, which totaled approximately \$2.1 billion and \$2.0 billion as of September 30, 2021 and December 31, 2020, respectively, are reflected on our consolidated balance sheets in cash, loans held for investment, and other assets. The liabilities are reflected in other liabilities. The creditors of the VIEs have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide it.

#### ***Other***

We hold variable interests in other VIEs, including companies that promote renewable energy sources and other equity method investments. We were not required to consolidate these VIEs because we do not have the power to direct the activities that most significantly impact their economic performance. Our maximum exposure to these VIEs is limited to the investments on our consolidated balance sheets of \$400 million and \$436 million as of September 30, 2021 and December 31, 2020, respectively. The creditors of the other VIEs have no recourse to our general credit. We have not provided additional financial or other support other than during the period that we are contractually required to provide it.

## NOTE 6—GOODWILL AND INTANGIBLE ASSETS

The table below presents our goodwill, intangible assets and MSRs as of September 30, 2021 and December 31, 2020. Goodwill is presented separately, while intangible assets and MSRs are included in other assets on our consolidated balance sheets.

**Table 6.1: Components of Goodwill, Intangible Assets and MSRs**

| <i>(Dollars in millions)</i>                            | September 30, 2021        |                          |                     |
|---|---------------------------|--------------------------|---------------------|
|   | Carrying Amount of Assets | Accumulated Amortization | Net Carrying Amount |
| Goodwill  | \$ 14,652                 | N/A                      | \$ 14,652           |
| Intangible assets:                                      |                           |                          |                     |
| Purchased credit card relationship (“PCCR”) intangibles | 29                        | \$ (8)                   | 21                  |
| Other <sup>(1)</sup>                                    | 183                       | (116)                    | 67                  |
| Total intangible assets                                 | 212                       | (124)                    | 88                  |
| Total goodwill and intangible assets                    | \$ 14,864                 | \$ (124)                 | \$ 14,740           |
| Commercial MSRs <sup>(2)</sup>                          | \$ 609                    | \$ (199)                 | \$ 410              |

  

| <i>(Dollars in millions)</i>         | December 31, 2020         |                          |                     |
|--------------------------------------|---------------------------|--------------------------|---------------------|
|                                      | Carrying Amount of Assets | Accumulated Amortization | Net Carrying Amount |
| Goodwill                             | \$ 14,653                 | N/A                      | \$ 14,653           |
| Intangible assets:                   |                           |                          |                     |
| PCCR intangibles                     | 148                       | \$ (138)                 | 10                  |
| Other <sup>(1)</sup>                 | 248                       | (168)                    | 80                  |
| Total intangible assets              | 396                       | (306)                    | 90                  |
| Total goodwill and intangible assets | \$ 15,049                 | \$ (306)                 | \$ 14,743           |
| Commercial MSRs <sup>(2)</sup>       | \$ 542                    | \$ (175)                 | \$ 367              |

<sup>(1)</sup> Primarily consists of intangibles for sponsorship, customer and merchant relationships, partnership, trade name and other contract intangibles.

<sup>(2)</sup> Commercial MSRs are accounted for under the amortization method on our consolidated balance sheets.

Amortization expense for amortizable intangible assets, which is presented separately in our consolidated statements of income, totaled \$5 million and \$16 million for the three and nine months ended September 30, 2021, respectively, and \$14 million and \$52 million for the three and nine months ended September 30, 2020, respectively.

### Goodwill

The following table presents changes in carrying amount of goodwill by each of our business segments as of September 30, 2021 and December 31, 2020.

**Table 6.2: Goodwill by Business Segments**

| <i>(Dollars in millions)</i>     | Credit Card | Consumer Banking | Commercial Banking | Total     |
|----------------------------------|-------------|------------------|--------------------|-----------|
| Balance as of December 31, 2020  | \$ 5,088    | \$ 4,645         | \$ 4,920           | \$ 14,653 |
| Other adjustments <sup>(1)</sup> | (1)         | 0                | 0                  | (1)       |
| Balance as of September 30, 2021 | \$ 5,087    | \$ 4,645         | \$ 4,920           | \$ 14,652 |

<sup>(1)</sup> Represents foreign currency translation adjustments.

## NOTE 7—DEPOSITS AND BORROWINGS

Our deposits represent our largest source of funding for our assets and operations, which include checking accounts, money market deposits, negotiable order of withdrawals, savings deposits and time deposits. We also use a variety of other funding sources including short-term borrowings, senior and subordinated notes, securitized debt obligations and other borrowings. Securitized debt obligations are presented separately on our consolidated balance sheets, as they represent obligations of consolidated securitization trusts, while federal funds purchased and securities loaned or sold under agreements to repurchase, senior and subordinated notes and other borrowings, including FHLB advances, are included in other debt on our consolidated balance sheets.

Our total short-term borrowings generally consist of federal funds purchased and securities loaned or sold under agreements to repurchase. Our long-term debt consists of borrowings with an original contractual maturity of greater than one year. The following tables summarize the components of our deposits, short-term borrowings and long-term debt as of September 30, 2021 and December 31, 2020. The carrying value presented below for these borrowings includes unamortized debt premiums and discounts, net of debt issuance costs and fair value hedge accounting adjustments.

**Table 7.1: Components of Deposits, Short-Term Borrowings and Long-Term Debt**

| <i>(Dollars in millions)</i>   | September 30, 2021 | December 31, 2020 |
|--|--------------------|-------------------|
| <b>Deposits:</b>   |                    |                   |
| Non-interest-bearing deposits  | \$ 36,804          | \$ 31,142         |
| Interest-bearing deposits <sup>(1)</sup>   | 269,134            | 274,300           |
| Total deposits   | <u>\$ 305,938</u>  | <u>\$ 305,442</u> |
| <b>Short-term borrowings:</b>  |                    |                   |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | \$ 825             | \$ 668            |
| Total short-term borrowings  | <u>\$ 825</u>      | <u>\$ 668</u>     |

| <i>(Dollars in millions)</i>                   | September 30, 2021 |                       |                                | December 31, 2020 |                  |
|--|--------------------|-----------------------|--------------------------------|-------------------|------------------|
|  | Maturity Dates     | Stated Interest Rates | Weighted-Average Interest Rate | Carrying Value    | Carrying Value   |
| <b>Long-term debt:</b>                         |                    |                       |                                |                   |                  |
| Securitized debt obligations                   | 2021-2028          | 0.43% - 2.84%         | 1.64%                          | \$ 12,635         | \$ 12,414        |
| Senior and subordinated notes:                 |                    |                       |                                |                   |                  |
| Fixed unsecured senior debt <sup>(2)</sup>     | 2022-2029          | 0.80 - 4.25           | 3.12                           | 17,030            | 21,045           |
| Floating unsecured senior debt                 | 2022-2023          | 0.85 - 1.28           | 1.05                           | 1,360             | 1,609            |
| Total unsecured senior debt                    |                    |                       | 2.97                           | 18,390            | 22,654           |
| Fixed unsecured subordinated debt              | 2023-2032          | 2.36 - 4.20           | 3.52                           | 5,593             | 4,728            |
| Total senior and subordinated notes            |                    |                       |                                | 23,983            | 27,382           |
| Other long-term borrowings:                    |                    |                       |                                |                   |                  |
| Finance lease liabilities                      | 2021 - 2031        | 0.30 - 9.91           | 3.14                           | 58                | 75               |
| Total other long-term borrowings               |                    |                       |                                | 58                | 75               |
| Total long-term debt                           |                    |                       |                                | <u>\$ 36,676</u>  | <u>\$ 39,871</u> |
| Total short-term borrowings and long-term debt |                    |                       |                                | <u>\$ 37,501</u>  | <u>\$ 40,539</u> |

<sup>(1)</sup> Includes \$1.9 billion and \$4.2 billion of time deposits in denominations in excess of the \$250,000 federal insurance limit as of September 30, 2021 and December 31, 2020, respectively.

<sup>(2)</sup> Includes \$1.5 billion and \$1.6 billion of EUR-denominated unsecured notes as of September 30, 2021 and December 31, 2020, respectively.

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**NOTE 8—DERIVATIVE INSTRUMENTS AND HEDGING ACTIVITIES**

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**Use of Derivatives and Accounting for Derivatives**

We regularly enter into derivative transactions to support our overall risk management activities. Our primary market risks stem from the impact on our earnings and economic value of equity due to changes in interest rates and, to a lesser extent, changes in foreign exchange rates. We manage our interest rate sensitivity by employing several techniques, which include changing the duration and re-pricing characteristics of various assets and liabilities by using interest rate derivatives. We also use foreign currency derivatives to limit our earnings and capital exposures to foreign exchange risk by hedging exposures denominated in foreign currencies. We primarily use interest rate and foreign currency swaps to hedge, but we may also use a variety of other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our interest rate and foreign exchange risks. We designate these risk management derivatives as either qualifying accounting hedges or free-standing derivatives. Qualifying accounting hedges are further designated as fair value hedges, cash flow hedges or net investment hedges. Free-standing derivatives are economic hedges that do not qualify for hedge accounting.

We also offer interest rate, commodity, foreign currency derivatives and other contracts as an accommodation to our customers within our Commercial Banking business. We enter into these derivatives with our customers primarily to help them manage their interest rate risks, hedge their energy and other commodities exposures, and manage foreign currency fluctuations. We then enter into derivative contracts with counterparties to economically hedge substantially all of our subsequent exposures.

See below for additional information on our use of derivatives and how we account for them:

- *Fair Value Hedges:* We designate derivatives as fair value hedges when they are used to manage our exposure to changes in the fair value of certain financial assets and liabilities, which fluctuate in value as a result of movements in interest rates. Changes in the fair value of derivatives designated as fair value hedges are presented in the same line item in our consolidated statements of income as the earnings effect of the hedged items. Our fair value hedges primarily consist of interest rate swaps that are intended to modify our exposure to interest rate risk on various fixed-rate financial assets and liabilities.
- *Cash Flow Hedges:* We designate derivatives as cash flow hedges when they are used to manage our exposure to variability in cash flows related to forecasted transactions. Changes in the fair value of derivatives designated as cash flow hedges are recorded as a component of accumulated other comprehensive income ("AOCI"). Those amounts are reclassified into earnings in the same period during which the forecasted transactions impact earnings and presented in the same line item in our consolidated statements of income as the earnings effect of the hedged items. Our cash flow hedges use interest rate swaps and floors that are intended to hedge the variability in interest receipts or interest payments on some of our variable-rate financial assets or liabilities. We also enter into foreign currency forward contracts to hedge our exposure to variability in cash flows related to intercompany borrowings denominated in foreign currencies.
- *Net Investment Hedges:* We use net investment hedges to manage the foreign currency exposure related to our net investments in foreign operations that have functional currencies other than the U.S. dollar. Changes in the fair value of net investment hedges are recorded in the translation adjustment component of AOCI, offsetting the translation gain or loss from those foreign operations. We execute net investment hedges using foreign currency forward contracts to hedge the translation exposure of the net investment in our foreign operations under the forward method.
- *Free-Standing Derivatives:* Our free-standing derivatives primarily consist of our customer accommodation derivatives and other economic hedges. The customer accommodation derivatives and the related offsetting contracts are mainly interest rate, commodity and foreign currency contracts. The other free-standing derivatives are primarily used to economically hedge the risk of changes in the fair value of our commercial mortgage loan origination and purchase commitments as well as other interests held. Changes in the fair value of free-standing derivatives are recorded in earnings as a component of other non-interest income.

## Derivatives Counterparty Credit Risk

### Counterparty Types

Derivative instruments contain an element of credit risk that arises from the potential failure of a counterparty to perform according to the terms of the contract, including making payments due upon maturity of certain derivative instruments. We execute our derivative contracts primarily in over-the-counter (“OTC”) markets. We also execute interest rate and commodity futures in the exchange-traded derivative markets. Our OTC derivatives consist of both trades cleared through central counterparty clearinghouses (“CCPs”) and uncleared bilateral contracts. The Chicago Mercantile Exchange (“CME”), the Intercontinental Exchange (“ICE”) and the LCH Group (“LCH”) are our CCPs for our centrally cleared contracts. In our uncleared bilateral contracts, we enter into agreements directly with our derivative counterparties.

### Counterparty Credit Risk Management

We manage the counterparty credit risk associated with derivative instruments by entering into legally enforceable master netting arrangements, where possible, and exchanging collateral with our counterparties, typically in the form of cash or high-quality liquid securities. The amount of collateral exchanged is dependent upon the fair value of the derivative instruments as well as the fair value of the pledged collateral and will vary over time as market variables change. When valuing collateral, an estimate of the variation in price and liquidity over time is subtracted in the form of a “haircut” to discount the value of the collateral pledged. Our exposure to derivative counterparty credit risk, at any point in time, is equal to the amount reported as a derivative asset on our balance sheet. The fair value of our derivatives is adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and any associated cash collateral received or pledged. See Table 8.3 for our net exposure associated with derivatives.

The terms under which we collateralize our exposures differ between cleared exposures and uncleared bilateral exposures.

- *CCPs:* We clear eligible OTC derivatives with CCPs as part of our regulatory requirements. Futures commission merchants (“FCMs”) serve as the intermediary between CCPs and us. CCPs require that we post initial and variation margin through our FCMs to mitigate the risk of non-payment or default. Initial margin is required upfront by CCPs as collateral against potential losses on our cleared derivative contracts and variation margin is exchanged on a daily basis to account for mark-to-market changes in those derivative contracts. For CME, ICE and LCH-cleared OTC derivatives, we characterize variation margin cash payments as settlements. Our FCM agreements governing these derivative transactions include provisions that may require us to post additional collateral under certain circumstances.
- *Bilateral Counterparties:* We enter into legally enforceable master netting agreements and collateral agreements, where possible, with bilateral derivative counterparties to mitigate the risk of default. We review our collateral positions on a daily basis and exchange collateral with our counterparties in accordance with these agreements. These bilateral agreements typically provide the right to offset exposure with the same counterparty and require the party in a net liability position to post collateral. Agreements with certain bilateral counterparties require both parties to maintain collateral in the event the fair values of derivative instruments exceed established exposure thresholds. Certain of these bilateral agreements include provisions requiring that our debt maintain a credit rating of investment grade or above by each of the major credit rating agencies. In the event of a downgrade of our debt credit rating below investment grade, some of our counterparties would have the right to terminate their derivative contract and close out existing positions.

### Credit Risk Valuation Adjustments

We record counterparty credit valuation adjustments (“CVAs”) on our derivative assets to reflect the credit quality of our counterparties. We consider collateral and legally enforceable master netting agreements that mitigate our credit exposure to each counterparty in determining CVAs, which may be adjusted due to changes in the fair values of the derivative contracts, collateral, and creditworthiness of the counterparty. We also record debit valuation adjustments (“DVAs”) to adjust the fair values of our derivative liabilities to reflect the impact of our own credit quality.

## Balance Sheet Presentation

The following table summarizes the notional amounts and fair values of our derivative instruments as of September 30, 2021 and December 31, 2020, which are segregated by derivatives that are designated as accounting hedges and those that are not, and are further segregated by type of contract within those two categories. The total derivative assets and liabilities are adjusted on an aggregate basis to take into consideration the effects of legally enforceable master netting agreements and any associated cash collateral received or pledged. Derivative assets and liabilities are included in other assets and other liabilities, respectively, on our consolidated balance sheets, and their related gains or losses are included in operating activities as changes in other assets and other liabilities in the consolidated statements of cash flows.

**Table 8.1: Derivative Assets and Liabilities at Fair Value**

| (Dollars in millions)                                   | September 30, 2021             |                           |             | December 31, 2020              |                           |             |
|---|--------------------------------|---------------------------|-------------|--------------------------------|---------------------------|-------------|
|   | Notional or Contractual Amount | Derivative <sup>(1)</sup> |             | Notional or Contractual Amount | Derivative <sup>(1)</sup> |             |
|   |                                | Assets                    | Liabilities |                                | Assets                    | Liabilities |
| <b>Derivatives designated as accounting hedges:</b>     |                                |                           |             |                                |                           |             |
| Interest rate contracts:                                |                                |                           |             |                                |                           |             |
| Fair value hedges                                       | \$ 44,563                      | \$ 29                     | \$ 10       | \$ 47,349                      | \$ 9                      | \$ 10       |
| Cash flow hedges  | 89,900                         | 445                       | 10          | 82,150                         | 748                       | 1           |
| Total interest rate contracts                           | 134,463                        | 474                       | 20          | 129,499                        | 757                       | 11          |
| Foreign exchange contracts:                             |                                |                           |             |                                |                           |             |
| Fair value hedges                                       | 1,448                          | 46                        | 0           | 1,527                          | 164                       | 0           |
| Cash flow hedges  | 4,278                          | 87                        | 2           | 4,582                          | 0                         | 161         |
| Net investment hedges                                   | 3,325                          | 50                        | 34          | 3,116                          | 0                         | 196         |
| Total foreign exchange contracts                        | 9,051                          | 183                       | 36          | 9,225                          | 164                       | 357         |
| Total derivatives designated as accounting hedges       | 143,514                        | 657                       | 56          | 138,724                        | 921                       | 368         |
| <b>Derivatives not designated as accounting hedges:</b> |                                |                           |             |                                |                           |             |
| Customer accommodation:                                 |                                |                           |             |                                |                           |             |
| Interest rate contracts                                 | 71,622                         | 848                       | 202         | 68,459                         | 1,429                     | 198         |
| Commodity contracts                                     | 21,555                         | 3,302                     | 3,136       | 16,871                         | 935                       | 820         |
| Foreign exchange and other contracts                    | 4,077                          | 53                        | 39          | 4,677                          | 58                        | 70          |
| Total customer accommodation                            | 97,254                         | 4,203                     | 3,377       | 90,007                         | 2,422                     | 1,088       |
| Other interest rate exposures <sup>(2)</sup>            | 2,656                          | 42                        | 27          | 1,770                          | 71                        | 56          |
| Other contracts   | 1,983                          | 2                         | 3           | 1,826                          | 1                         | 6           |
| Total derivatives not designated as accounting hedges   | 101,893                        | 4,247                     | 3,407       | 93,603                         | 2,494                     | 1,150       |
| Total derivatives                                       | \$ 245,407                     | \$ 4,904                  | \$ 3,463    | \$ 232,327                     | \$ 3,415                  | \$ 1,518    |
| Less: netting adjustment <sup>(3)</sup>                 |                                | (975)                     | (904)       |                                | (1,148)                   | (739)       |
| Total derivative assets/liabilities                     |                                | \$ 3,929                  | \$ 2,559    |                                | \$ 2,267                  | \$ 779      |

<sup>(1)</sup> Does not reflect \$17 million and \$31 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of September 30, 2021 and December 31, 2020, respectively. Non-performance risk is included in derivative assets and liabilities, which are part of other assets and other liabilities on the consolidated balance sheets, and is offset through non-interest income in the consolidated statements of income.

<sup>(2)</sup> Other interest rate exposures include commercial mortgage-related derivatives and interest rate swaps.

<sup>(3)</sup> Represents balance sheet netting of derivative assets and liabilities, and related payables and receivables for cash collateral held or placed with the same counterparty.

The following table summarizes the carrying value of our hedged assets and liabilities in fair value hedges and the associated cumulative basis adjustments included in those carrying values, excluding basis adjustments related to foreign currency risk, as of September 30, 2021 and December 31, 2020.

**Table 8.2: Hedged Items in Fair Value Hedging Relationships**

| <i>(Dollars in millions)</i>  | September 30, 2021                      |  |   | December 31, 2020                       |  |   |
|---|---|--|---|---|--|---|
|   | Carrying Amount<br>Assets/(Liabilities) | Cumulative Amount of Basis<br>Adjustments Included in the Carrying<br>Amount |   | Carrying Amount<br>Assets/(Liabilities) | Cumulative Amount of Basis<br>Adjustments Included in the Carrying<br>Amount |   |
|   |   | Total<br>Assets/(Liabilities)  | Discontinued-<br>Hedging<br>Relationships |   | Total<br>Assets/(Liabilities)  | Discontinued-<br>Hedging<br>Relationships |
| <b>Line item on our consolidated balance sheets in which the hedged item is included:</b> |   |  |   |   |  |   |
| Investment securities available for sale <sup>(1)(2)</sup>                                | \$ 9,914                                | \$ 381   | \$ 152                                    | \$ 9,797                                | \$ 590   | \$ 200                                    |
| Interest-bearing deposits   | (7,951)                                 | (97)   | 0   | (11,312)                                | (213)  | 0   |
| Securitized debt obligations  | (9,239)                                 | (31)   | 5   | (7,609)                                 | (171)  | 20  |
| Senior and subordinated notes   | (19,889)                                | (774)  | (561)                                     | (21,927)                                | (1,282)  | (666)                                     |

<sup>(1)</sup> These amounts include the amortized cost basis of our investment securities designated in hedging relationships for which the hedged item is the last layer expected to be remaining at the end of the hedging relationship. The amortized cost basis of this portfolio was \$249 million, the amount of the designated hedged items was \$225 million, and the cumulative basis adjustments associated with these hedges was \$1 million as of September 30, 2021. We had no such hedging relationships as of December 31, 2020.

<sup>(2)</sup> Carrying value represents amortized cost.

### Balance Sheet Offsetting of Financial Assets and Liabilities

Derivative contracts and repurchase agreements that we execute bilaterally in the OTC market are generally governed by enforceable master netting arrangements where we generally have the right to offset exposure with the same counterparty. Either counterparty can generally request to net settle all contracts through a single payment upon default on, or termination of, any one contract. We elect to offset the derivative assets and liabilities under master netting arrangements for balance sheet presentation where a right of setoff exists. For derivative contracts entered into under master netting arrangements for which we have not been able to confirm the enforceability of the setoff rights, or those not subject to master netting arrangements, we do not offset our derivative positions for balance sheet presentation.

The following table presents the gross and net fair values of our derivative assets, derivative liabilities, resale and repurchase agreements and the related offsetting amounts permitted under U.S. GAAP as of September 30, 2021 and December 31, 2020. The table also includes cash and non-cash collateral received or pledged in accordance with such arrangements. The amount of collateral presented, however, is limited to the amount of the related net derivative fair values or outstanding balances; therefore, instances of over-collateralization are excluded.

**Table 8.3: Offsetting of Financial Assets and Financial Liabilities**

| <i>(Dollars in millions)</i>     | Gross Amounts | Gross Amounts Offset in the Balance Sheet |                          | Net Amounts as Recognized | Securities Collateral Held Under Master Netting Agreements | Net Exposure |
|----------------------------------|---------------|---|--------------------------|---------------------------|--|--------------|
|                                  |               | Financial Instruments                     | Cash Collateral Received |                           |  |              |
| <b>As of September 30, 2021</b>  |               |   |                          |                           |  |              |
| Derivative assets <sup>(1)</sup> | \$ 4,904      | \$ (434)                                  | \$ (541)                 | \$ 3,929                  | \$ 0   | \$ 3,929     |
| <b>As of December 31, 2020</b>   |               |   |                          |                           |  |              |
| Derivative assets <sup>(1)</sup> | 3,415         | (383)                                     | (765)                    | 2,267                     | 0  | 2,267        |

  

| <i>(Dollars in millions)</i>          | Gross Amounts | Gross Amounts Offset in the Balance Sheet |                         | Net Amounts as Recognized | Securities Collateral Pledged Under Master Netting Agreements | Net Exposure |
|---------------------------------------|---------------|---|-------------------------|---------------------------|---|--------------|
|                                       |               | Financial Instruments                     | Cash Collateral Pledged |                           |   |              |
| <b>As of September 30, 2021</b>       |               |   |                         |                           |   |              |
| Derivative liabilities <sup>(1)</sup> | \$ 3,463      | \$ (434)                                  | \$ (470)                | \$ 2,559                  | \$ 0  | \$ 2,559     |
| Repurchase agreements <sup>(2)</sup>  | 825           | 0   | 0                       | 825                       | (825)   | 0            |
| <b>As of December 31, 2020</b>        |               |   |                         |                           |   |              |
| Derivative liabilities <sup>(1)</sup> | 1,518         | (383)                                     | (356)                   | 779                       | 0   | 779          |
| Repurchase agreements <sup>(2)</sup>  | 668           | 0   | 0                       | 668                       | (668)   | 0            |

<sup>(1)</sup> We received cash collateral from derivative counterparties totaling \$653 million and \$862 million as of September 30, 2021 and December 31, 2020, respectively. We also received securities from derivative counterparties with a fair value of approximately \$1 million as of both September 30, 2021 and December 31, 2020, respectively, which we have the ability to re-pledge. We posted \$2.5 billion and \$1.5 billion of cash collateral as of September 30, 2021 and December 31, 2020, respectively.

<sup>(2)</sup> Under our customer repurchase agreements, which mature the next business day, we pledged collateral with a fair value of \$842 million and \$682 million as of September 30, 2021 and December 31, 2020, respectively, primarily consisting of agency RMBS securities.

## Income Statement and AOCI Presentation

### Fair Value and Cash Flow Hedges

The net gains (losses) recognized in our consolidated statements of income related to derivatives in fair value and cash flow hedging relationships are presented below for the three and nine months ended September 30, 2021 and 2020.

**Table 8.4: Effects of Fair Value and Cash Flow Hedge Accounting**

| <i>(Dollars in millions)</i>  | Three Months Ended September 30, 2021 |                                      |       |                           |                              |                               |                     |
|---|---------------------------------------|--------------------------------------|-------|---------------------------|------------------------------|-------------------------------|---------------------|
|   | Net Interest Income                   |                                      |       |                           |                              |                               | Non-Interest Income |
|   | Investment Securities                 | Loans, Including Loans Held for Sale | Other | Interest-bearing Deposits | Securitized Debt Obligations | Senior and Subordinated Notes | Other               |
| <b>Total amounts presented in our consolidated statements of income</b>       | \$ 317                                | \$ 6,205                             | \$ 16 | \$ (228)                  | \$ (29)                      | \$ (116)                      | \$ 243              |
| <b>Fair value hedging relationships:</b>                                      |                                       |                                      |       |                           |                              |                               |                     |
| Interest rate and foreign exchange contracts:                                 |                                       |                                      |       |                           |                              |                               |                     |
| Interest recognized on derivatives  | \$ (25)                               | \$ 0                                 | \$ 0  | \$ 31                     | \$ 30                        | \$ 50                         | \$ 0                |
| Gains (losses) recognized on derivatives                                      | 19                                    | 0                                    | 0     | (28)                      | (57)                         | (72)                          | (34)                |
| Gains (losses) recognized on hedged items <sup>(1)</sup>                      | (83)                                  | 0                                    | 0     | 27                        | 54                           | 103                           | 34                  |
| Excluded component of fair value hedges <sup>(2)</sup>                        | 0                                     | 0                                    | 0     | 0                         | 0                            | (1)                           | 0                   |
| Net income (expense) recognized on fair value hedges                          | \$ (89)                               | \$ 0                                 | \$ 0  | \$ 30                     | \$ 27                        | \$ 80                         | \$ 0                |
| <b>Cash flow hedging relationships:<sup>(3)</sup></b>                         |                                       |                                      |       |                           |                              |                               |                     |
| Interest rate contracts:  |                                       |                                      |       |                           |                              |                               |                     |
| Realized gains (losses) reclassified from AOCI into net income                | \$ 10                                 | \$ 240                               | \$ 0  | \$ 0                      | \$ 0                         | \$ 0                          | \$ 0                |
| Foreign exchange contracts:   |                                       |                                      |       |                           |                              |                               |                     |
| Realized gains (losses) reclassified from AOCI into net income <sup>(4)</sup> | 0                                     | 0                                    | 0     | 0                         | 0                            | 0                             | 0                   |
| Net income (expense) recognized on cash flow hedges                           | \$ 10                                 | \$ 240                               | \$ 0  | \$ 0                      | \$ 0                         | \$ 0                          | \$ 0                |

| Nine Months Ended September 30, 2021  |                          |  |             |                              |                                 |                                     |                        |
|---|--------------------------|--|-------------|------------------------------|---------------------------------|-------------------------------------|------------------------|
| (Dollars in millions)   | Net Interest Income      |  |             |                              |                                 |                                     | Non-Interest<br>Income |
|   | Investment<br>Securities | Loans, Including<br>Loans Held for<br>Sale | Other       | Interest-bearing<br>Deposits | Securitized Debt<br>Obligations | Senior and<br>Subordinated<br>Notes | Other                  |
| <b>Total amounts presented in our consolidated statements of income</b>       | \$ 1,078                 | \$ 17,812                                  | \$ 48       | \$ (734)                     | \$ (89)                         | \$ (367)                            | \$ 592                 |
| <b>Fair value hedging relationships:</b>                                      |                          |  |             |                              |                                 |                                     |                        |
| Interest rate and foreign exchange contracts:                                 |                          |  |             |                              |                                 |                                     |                        |
| Interest recognized on derivatives  | \$ (75)                  | \$ 0                                       | \$ 0        | \$ 101                       | \$ 93                           | \$ 168                              | \$ 0                   |
| Gains (losses) recognized on derivatives                                      | 130                      | 0  | 0           | (117)                        | (154)                           | (408)                               | (79)                   |
| Gains (losses) recognized on hedged items <sup>(1)</sup>                      | (206)                    | 0  | 0           | 116                          | 140                             | 504                                 | 79                     |
| Excluded component of fair value hedges <sup>(2)</sup>                        | 0                        | 0  | 0           | 0                            | 0                               | (2)                                 | 0                      |
| Net income (expense) recognized on fair value hedges                          | <u>\$ (151)</u>          | <u>\$ 0</u>                                | <u>\$ 0</u> | <u>\$ 100</u>                | <u>\$ 79</u>                    | <u>\$ 262</u>                       | <u>\$ 0</u>            |
| <b>Cash flow hedging relationships:<sup>(3)</sup></b>                         |                          |  |             |                              |                                 |                                     |                        |
| Interest rate contracts:  |                          |  |             |                              |                                 |                                     |                        |
| Realized gains (losses) reclassified from AOCI into net income                | \$ 30                    | \$ 700                                     | \$ 0        | \$ 0                         | \$ 0                            | \$ 0                                | \$ 0                   |
| Foreign exchange contracts:   |                          |  |             |                              |                                 |                                     |                        |
| Realized gains (losses) reclassified from AOCI into net income <sup>(4)</sup> | 0                        | 0  | 1           | 0                            | 0                               | 0                                   | 1                      |
| Net income (expense) recognized on cash flow hedges                           | <u>\$ 30</u>             | <u>\$ 700</u>                              | <u>\$ 1</u> | <u>\$ 0</u>                  | <u>\$ 0</u>                     | <u>\$ 0</u>                         | <u>\$ 1</u>            |

## Three Months Ended September 30, 2020

|   | Net Interest Income   |                                      |       |                           |                              |                               | Non-Interest Income |
|---|-----------------------|--------------------------------------|-------|---------------------------|------------------------------|-------------------------------|---------------------|
|   | Investment Securities | Loans, Including Loans Held for Sale | Other | Interest-bearing Deposits | Securitized Debt Obligations | Senior and Subordinated Notes | Other               |
| <i>(Dollars in millions)</i>  |                       |                                      |       |                           |                              |                               |                     |
| <b>Total amounts presented in our consolidated statements of income</b>       | \$ 443                | \$ 5,758                             | \$ 14 | \$ (476)                  | \$ (43)                      | \$ (132)                      | \$ 706              |
| <b>Fair value hedging relationships:</b>                                      |                       |                                      |       |                           |                              |                               |                     |
| Interest rate and foreign exchange contracts:                                 |                       |                                      |       |                           |                              |                               |                     |
| Interest recognized on derivatives  | \$ (23)               | \$ 0                                 | \$ 0  | \$ 44                     | \$ 40                        | \$ 56                         | \$ 0                |
| Gains (losses) recognized on derivatives                                      | 24                    | 0                                    | 0     | (47)                      | (48)                         | (72)                          | 61                  |
| Gains (losses) recognized on hedged items <sup>(1)</sup>                      | (31)                  | 0                                    | 0     | 48                        | 41                           | 111                           | (61)                |
| Excluded component of fair value hedges <sup>(2)</sup>                        | 0                     | 0                                    | 0     | 0                         | 0                            | (1)                           | 0                   |
| Net income (expense) recognized on fair value hedges                          | \$ (30)               | \$ 0                                 | \$ 0  | \$ 45                     | \$ 33                        | \$ 94                         | \$ 0                |
| <b>Cash flow hedging relationships:<sup>(3)</sup></b>                         |                       |                                      |       |                           |                              |                               |                     |
| Interest rate contracts:  |                       |                                      |       |                           |                              |                               |                     |
| Realized gains (losses) reclassified from AOCI into net income                | \$ 8                  | \$ 171                               | \$ 0  | \$ 0                      | \$ 0                         | \$ 0                          | \$ 0                |
| Foreign exchange contracts:   |                       |                                      |       |                           |                              |                               |                     |
| Realized gains (losses) reclassified from AOCI into net income <sup>(4)</sup> | 0                     | 0                                    | 1     | 0                         | 0                            | 0                             | 0                   |
| Net income (expense) recognized on cash flow hedges                           | \$ 8                  | \$ 171                               | \$ 1  | \$ 0                      | \$ 0                         | \$ 0                          | \$ 0                |

Nine Months Ended September 30, 2020

| (Dollars in millions)   | Net Interest Income   |                                      |       |                           |                              |                               | Non-Interest Income |
|---|-----------------------|--------------------------------------|-------|---------------------------|------------------------------|-------------------------------|---------------------|
|   | Investment Securities | Loans, Including Loans Held for Sale | Other | Interest-bearing Deposits | Securitized Debt Obligations | Senior and Subordinated Notes | Other               |
| <b>Total amounts presented in our consolidated statements of income</b>       | \$ 1,455              | \$ 18,120                            | \$ 67 | \$ (1,818)                | \$ (198)                     | \$ (551)                      | \$ 1,017            |
| <b>Fair value hedging relationships:</b>                                      |                       |                                      |       |                           |                              |                               |                     |
| Interest rate and foreign exchange contracts:                                 |                       |                                      |       |                           |                              |                               |                     |
| Interest recognized on derivatives  | \$ (51)               | \$ 0                                 | \$ 0  | \$ 69                     | \$ 92                        | \$ 166                        | \$ 0                |
| Gains (losses) recognized on derivatives                                      | (340)                 | 0                                    | 0     | 249                       | 221                          | 1,057                         | 64                  |
| Gains (losses) recognized on hedged items <sup>(1)</sup>                      | 329                   | 0                                    | 0     | (248)                     | (251)                        | (1,048)                       | (64)                |
| Excluded component of fair value hedges <sup>(2)</sup>                        | 0                     | 0                                    | 0     | 0                         | 0                            | (2)                           | 0                   |
| Net income (expense) recognized on fair value hedges                          | \$ (62)               | \$ 0                                 | \$ 0  | \$ 70                     | \$ 62                        | \$ 173                        | \$ 0                |
| <b>Cash flow hedging relationships:<sup>(3)</sup></b>                         |                       |                                      |       |                           |                              |                               |                     |
| Interest rate contracts:  |                       |                                      |       |                           |                              |                               |                     |
| Realized gains reclassified from AOCI into net income                         | \$ 17                 | \$ 330                               | \$ 0  | \$ 0                      | \$ 0                         | \$ 0                          | \$ 0                |
| Foreign exchange contracts:   |                       |                                      |       |                           |                              |                               |                     |
| Realized gains (losses) reclassified from AOCI into net income <sup>(4)</sup> | 0                     | 0                                    | 10    | 0                         | 0                            | 0                             | (2)                 |
| Net income (expense) recognized on cash flow hedges                           | \$ 17                 | \$ 330                               | \$ 10 | \$ 0                      | \$ 0                         | \$ 0                          | \$ (2)              |

<sup>(1)</sup> Includes amortization expense of \$34 million and benefit of \$10 million for the three and nine months ended September 30, 2021, respectively, and amortization income of \$19 million and expense of \$34 million, respectively, for the three and nine months ended September 30, 2020, respectively, related to basis adjustments on discontinued hedges.

<sup>(2)</sup> Changes in fair values of cross-currency swaps attributable to changes in cross-currency basis spreads are excluded from the assessment of hedge effectiveness and recorded in other comprehensive income. The initial value of the excluded component is recognized in earnings over the life of the swap under the amortization approach.

<sup>(3)</sup> See "Note 9—Stockholders' Equity" for the effects of cash flow and net investment hedges on AOCI and amounts reclassified to net income, net of tax.

<sup>(4)</sup> We recognized a gain of \$83 million and \$245 million for the three and nine months ended September 30, 2021, respectively, and a loss of \$73 million and a gain of \$20 million for the three and nine months ended September 30, 2020, respectively, on foreign exchange contracts reclassified from AOCI. These amounts were largely offset by the foreign currency transaction gains (losses) on our foreign currency denominated intercompany funding included in other non-interest income on our consolidated statements of income.

In the next 12 months, we expect to reclassify into earnings net after-tax gains of \$438 million recorded in AOCI as of September 30, 2021. These amounts will offset the cash flows associated with the hedged forecasted transactions. The maximum length of time over which forecasted transactions were hedged was approximately 6.5 years as of September 30, 2021. The amount we expect to reclassify into earnings may change as a result of changes in market conditions and ongoing actions taken as part of our overall risk management strategy.

**Free-Standing Derivatives**

The net impacts to our consolidated statements of income related to free-standing derivatives are presented below for the three and nine months ended September 30, 2021 and 2020. These gains or losses are recognized in other non-interest income on our consolidated statements of income.

**Table 8.5: Gains (Losses) on Free-Standing Derivatives**

| <i>(Dollars in millions)</i>                                   | Three Months Ended September 30, |              | Nine Months Ended September 30, |              |
|--|----------------------------------|--------------|---------------------------------|--------------|
|  | 2021                             | 2020         | 2021                            | 2020         |
| <b>Gains (losses) recognized in other non-interest income:</b> |                                  |              |                                 |              |
| Customer accommodation:  |                                  |              |                                 |              |
| Interest rate contracts  | \$ 7                             | \$ (5)       | \$ 25                           | \$ 7         |
| Commodity contracts  | 11                               | 7            | 20                              | 23           |
| Foreign exchange and other contracts <sup>(1)</sup>            | 3                                | 1            | 11                              | 5            |
| Total customer accommodation                                   | 21                               | 3            | 56                              | 35           |
| Other interest rate exposures                                  | 18                               | 17           | 2                               | 1            |
| Other contracts  | (6)                              | 0            | (7)                             | 0            |
| <b>Total</b>   | <b>\$ 33</b>                     | <b>\$ 20</b> | <b>\$ 51</b>                    | <b>\$ 36</b> |

<sup>(1)</sup> Foreign exchange and other contracts includes gains of \$1 million and \$8 million on FX spot transactions for the three and nine months ended September 30, 2021.

## NOTE 9—STOCKHOLDERS' EQUITY

### Preferred Stock

The following table summarizes our preferred stock outstanding as of September 30, 2021 and December 31, 2020.

**Table 9.1: Preferred Stock Outstanding<sup>(1)</sup>**

| Series                  | Description                            | Issuance Date      | Redeemable by Issuer Beginning | Per Annum Dividend Rate  | Dividend Frequency                                    | Liquidation Preference per Share | Total Shares Outstanding as of September 30, 2021 | Carrying Value (in millions) |                   |
|-------------------------|--|--------------------|--------------------------------|--|---|----------------------------------|---|------------------------------|-------------------|
|                         |  |                    |                                |  |   |                                  |   | September 30, 2021           | December 31, 2020 |
| Series E <sup>(2)</sup> | Fixed-to-Floating Rate Non-Cumulative  | May 14, 2015       | June 1, 2020                   | 5.550% through 5/31/2020; 3-mo. LIBOR + 380 bps thereafter   | Semi-Annually through 5/31/2020; Quarterly thereafter | \$ 1,000                         | 0   | \$ 0                         | \$ 988            |
| Series G                | 5.200% Non-Cumulative                  | July 29, 2016      | December 1, 2021               | 5.200  | Quarterly   | 1,000                            | 600,000   | 583                          | 583               |
| Series H                | 6.000% Non-Cumulative                  | November 29, 2016  | December 1, 2021               | 6.000  | Quarterly   | 1,000                            | 500,000   | 483                          | 483               |
| Series I                | 5.000% Non-Cumulative                  | September 11, 2019 | December 1, 2024               | 5.000  | Quarterly   | 1,000                            | 1,500,000   | 1,462                        | 1,462             |
| Series J                | 4.800% Non-Cumulative                  | January 31, 2020   | June 1, 2025                   | 4.800  | Quarterly   | 1,000                            | 1,250,000   | 1,209                        | 1,209             |
| Series K                | 4.625% Non-Cumulative                  | September 17, 2020 | December 1, 2025               | 4.625  | Quarterly   | 1,000                            | 125,000   | 122                          | 122               |
| Series L                | 4.375% Non-Cumulative                  | May 4, 2021        | September 1, 2026              | 4.375  | Quarterly   | 1,000                            | 675,000   | 653                          | 0                 |
| Series M                | 3.950% Fixed Rate Reset Non-Cumulative | June 10, 2021      | September 1, 2026              | 3.950% through 8/31/2026; resets 9/1/2026 and every subsequent 5 year anniversary at 5-Year Treasury +3.157% | Quarterly   | 1,000                            | 1,000,000   | 988                          | 0                 |
| Series N                | 4.250% Non-Cumulative                  | July 29, 2021      | September 1, 2026              | 4.250  | Quarterly   | 1,000                            | 425,000   | 412                          | 0                 |
| <b>Total</b>            |  |                    |                                |  |   |                                  |   | <b>\$ 5,912</b>              | <b>\$ 4,847</b>   |

<sup>(1)</sup> Except for Series E and Series M, ownership is held in the form of depositary shares, each representing a 1/40th interest in a share of fixed-rate non-cumulative perpetual preferred stock.

<sup>(2)</sup> On September 1, 2021, we redeemed all outstanding shares of our preferred stock Series E.

### Accumulated Other Comprehensive Income

AOCI primarily consists of accumulated net unrealized gains or losses associated with securities available for sale, changes in fair value of derivatives in hedging relationships, and foreign currency translation adjustments.

The following table includes the AOCI impacts from the adoption of the CECL standard and the changes in AOCI by component for the three and nine months ended September 30, 2021 and 2020.

**Table 9.2: AOCI**

|  | Three Months Ended September 30, 2021 |                                      |   |                |                 |
|--|---------------------------------------|--------------------------------------|---|----------------|-----------------|
| <i>(Dollars in millions)</i>                               | Securities Available for Sale         | Hedging Relationships <sup>(1)</sup> | Foreign Currency Translation Adjustments <sup>(2)</sup> | Other          | Total           |
| AOCI as of June 30, 2021                                   | \$ 1,089                              | \$ 730                               | \$ (3)  | \$ (24)        | \$ 1,792        |
| Other comprehensive income (loss) before reclassifications | (206)                                 | 57                                   | (27)  | 0              | (176)           |
| Amounts reclassified from AOCI into earnings               | (2)                                   | (252)                                | 0   | (2)            | (256)           |
| Other comprehensive income (loss), net of tax              | (208)                                 | (195)                                | (27)  | (2)            | (432)           |
| AOCI as of September 30, 2021                              | <u>\$ 881</u>                         | <u>\$ 535</u>                        | <u>\$ (30)</u>  | <u>\$ (26)</u> | <u>\$ 1,360</u> |

  

|  | Nine Months Ended September 30, 2021 |                                      |   |                |                 |
|--|--------------------------------------|--------------------------------------|---|----------------|-----------------|
| <i>(Dollars in millions)</i>                               | Securities Available for Sale        | Hedging Relationships <sup>(1)</sup> | Foreign Currency Translation Adjustments <sup>(2)</sup> | Other          | Total           |
| AOCI as of December 31, 2020                               | \$ 2,186                             | \$ 1,362                             | \$ (31)   | \$ (23)        | \$ 3,494        |
| Other comprehensive income (loss) before reclassifications | (1,300)                              | (88)                                 | 1   | 0              | (1,387)         |
| Amounts reclassified from AOCI into earnings               | (5)                                  | (739)                                | 0   | (3)            | (747)           |
| Other comprehensive income (loss), net of tax              | (1,305)                              | (827)                                | 1   | (3)            | (2,134)         |
| AOCI as of September 30, 2021                              | <u>\$ 881</u>                        | <u>\$ 535</u>                        | <u>\$ (30)</u>  | <u>\$ (26)</u> | <u>\$ 1,360</u> |

  

|  | Three Months Ended September 30, 2020 |                                      |   |                |                 |
|--|---------------------------------------|--------------------------------------|---|----------------|-----------------|
| <i>(Dollars in millions)</i>                               | Securities Available for Sale         | Hedging Relationships <sup>(1)</sup> | Foreign Currency Translation Adjustments <sup>(2)</sup> | Other          | Total           |
| AOCI as of June 30, 2020                                   | \$ 2,373                              | \$ 1,785                             | \$ (151)  | \$ (26)        | \$ 3,981        |
| Other comprehensive income (loss) before reclassifications | 20                                    | (95)                                 | 28  | 0              | (47)            |
| Amounts reclassified from AOCI into earnings               | (19)                                  | (80)                                 | 0   | (2)            | (101)           |
| Other comprehensive income (loss), net of tax              | 1                                     | (175)                                | 28  | (2)            | (148)           |
| AOCI as of September 30, 2020                              | <u>\$ 2,374</u>                       | <u>\$ 1,610</u>                      | <u>\$ (123)</u>   | <u>\$ (28)</u> | <u>\$ 3,833</u> |

  

|  | Nine Months Ended September 30, 2020 |                                      |   |                |                 |
|--|--------------------------------------|--------------------------------------|---|----------------|-----------------|
| <i>(Dollars in millions)</i>                               | Securities Available for Sale        | Hedging Relationships <sup>(1)</sup> | Foreign Currency Translation Adjustments <sup>(2)</sup> | Other          | Total           |
| AOCI as of December 31, 2019                               | \$ 935                               | \$ 354                               | \$ (107)  | \$ (26)        | \$ 1,156        |
| Cumulative effects from the adoption of the CECL standard  | (8)                                  | 0                                    | 0   | 0              | (8)             |
| Other comprehensive income (loss) before reclassifications | 1,466                                | 1,540                                | (16)  | 0              | 2,990           |
| Amounts reclassified from AOCI into earnings               | (19)                                 | (284)                                | 0   | (2)            | (305)           |
| Other comprehensive income (loss), net of tax              | 1,447                                | 1,256                                | (16)  | (2)            | 2,685           |
| AOCI as of September 30, 2020                              | <u>\$ 2,374</u>                      | <u>\$ 1,610</u>                      | <u>\$ (123)</u>   | <u>\$ (28)</u> | <u>\$ 3,833</u> |

<sup>(1)</sup> Includes amounts related to cash flow hedges as well as the excluded component of cross-currency swaps designated as fair value hedges.

<sup>(2)</sup> Includes other comprehensive gains of \$66 million and \$32 million for the three and nine months ended September 30, 2021, respectively, and other comprehensive loss of \$75 million and gain of \$59 million for the three and nine months ended September 30, 2020, respectively, from hedging instruments designated as net investment hedges.

The following table presents amounts reclassified from each component of AOCI to our consolidated statements of income for the three and nine months ended September 30, 2021 and 2020.

**Table 9.3: Reclassifications from AOCI**

*(Dollars in millions)*

| AOCI Components                       | Affected Income Statement Line Item                   | Three Months Ended September 30, |               | Nine Months Ended September 30, |               |
|---------------------------------------|---|----------------------------------|---------------|---------------------------------|---------------|
|                                       |   | 2021                             | 2020          | 2021                            | 2020          |
| <b>Securities available for sale:</b> |   |                                  |               |                                 |               |
|                                       | Non-interest income                                   | \$ 2                             | \$ 25         | \$ 6                            | \$ 25         |
|                                       | Income tax provision                                  | 0                                | 6             | 1                               | 6             |
|                                       | Net income  | 2                                | 19            | 5                               | 19            |
| <b>Hedging relationships:</b>         |   |                                  |               |                                 |               |
| Interest rate contracts:              | Interest income                                       | 250                              | 179           | 730                             | 347           |
| Foreign exchange contracts:           | Interest income                                       | 0                                | 1             | 1                               | 10            |
|                                       | Interest expense                                      | 0                                | (1)           | (2)                             | (3)           |
|                                       | Non-interest income                                   | 83                               | (73)          | 245                             | 20            |
|                                       | Income from continuing operations before income taxes | 333                              | 106           | 974                             | 374           |
|                                       | Income tax provision                                  | 81                               | 26            | 235                             | 90            |
|                                       | Net income  | 252                              | 80            | 739                             | 284           |
| <b>Other:</b>                         |   |                                  |               |                                 |               |
|                                       | Non-interest income and non-interest expense          | 3                                | 2             | 4                               | 2             |
|                                       | Income tax provision                                  | 1                                | 0             | 1                               | 0             |
|                                       | Net income  | 2                                | 2             | 3                               | 2             |
| <b>Total reclassifications</b>        |   | <b>\$ 256</b>                    | <b>\$ 101</b> | <b>\$ 747</b>                   | <b>\$ 305</b> |

The table below summarizes other comprehensive income (loss) activity and the related tax impact for the three and nine months ended September 30, 2021 and 2020.

**Table 9.4: Other Comprehensive Income (Loss)**

| <i>(Dollars in millions)</i>                                   | Three Months Ended September 30, |                     |                 |                 |                     |                 |
|--|----------------------------------|---------------------|-----------------|-----------------|---------------------|-----------------|
|  | 2021                             |                     |                 | 2020            |                     |                 |
|  | Before Tax                       | Provision (Benefit) | After Tax       | Before Tax      | Provision (Benefit) | After Tax       |
| <b>Other comprehensive income (loss):</b>                      |                                  |                     |                 |                 |                     |                 |
| Net unrealized gains (losses) on securities available for sale | \$ (270)                         | \$ (62)             | \$ (208)        | \$ 1            | \$ 0                | \$ 1            |
| Net unrealized gains (losses) on hedging relationships         | (255)                            | (60)                | (195)           | (231)           | (56)                | (175)           |
| Foreign currency translation adjustments <sup>(1)</sup>        | (6)                              | 21                  | (27)            | 4               | (24)                | 28              |
| Other  | (3)                              | (1)                 | (2)             | (2)             | 0                   | (2)             |
| Other comprehensive income (loss)                              | <u>\$ (534)</u>                  | <u>\$ (102)</u>     | <u>\$ (432)</u> | <u>\$ (228)</u> | <u>\$ (80)</u>      | <u>\$ (148)</u> |

  

| <i>(Dollars in millions)</i>                                   | Nine Months Ended September 30, |                     |                   |                 |                     |                 |
|--|---------------------------------|---------------------|-------------------|-----------------|---------------------|-----------------|
|  | 2021                            |                     |                   | 2020            |                     |                 |
|  | Before Tax                      | Provision (Benefit) | After Tax         | Before Tax      | Provision (Benefit) | After Tax       |
| <b>Other comprehensive income (loss):</b>                      |                                 |                     |                   |                 |                     |                 |
| Net unrealized gains (losses) on securities available for sale | \$ (1,716)                      | \$ (411)            | \$ (1,305)        | \$ 1,903        | \$ 456              | \$ 1,447        |
| Net unrealized gains (losses) on hedging relationships         | (1,089)                         | (262)               | (827)             | 1,653           | 397                 | 1,256           |
| Foreign currency translation adjustments <sup>(1)</sup>        | 11                              | 10                  | 1                 | 3               | 19                  | (16)            |
| Other  | (4)                             | (1)                 | (3)               | (2)             | 0                   | (2)             |
| Other comprehensive income (loss)                              | <u>\$ (2,798)</u>               | <u>\$ (664)</u>     | <u>\$ (2,134)</u> | <u>\$ 3,557</u> | <u>\$ 872</u>       | <u>\$ 2,685</u> |

<sup>(1)</sup> Includes the impact of hedging instruments designated as net investment hedges.

## NOTE 10—EARNINGS PER COMMON SHARE

The following table sets forth the computation of basic and diluted earnings per common share.

**Table 10.1: Computation of Basic and Diluted Earnings per Common Share**

| <i>(Dollars and shares in millions, except per share data)</i>             | Three Months Ended September 30, |          | Nine Months Ended September 30, |           |
|--|----------------------------------|----------|---------------------------------|-----------|
|  | 2021                             | 2020     | 2021                            | 2020      |
| Income from continuing operations, net of tax                              | \$ 3,104                         | \$ 2,406 | \$ 9,968                        | \$ 149    |
| Loss from discontinued operations, net of tax                              | 0                                | 0        | (3)                             | (1)       |
| Net income   | 3,104                            | 2,406    | 9,965                           | 148       |
| Dividends and undistributed earnings allocated to participating securities | (26)                             | (20)     | (84)                            | (5)       |
| Preferred stock dividends  | (79)                             | (67)     | (200)                           | (212)     |
| Issuance cost for redeemed preferred stock                                 | (12)                             | 0        | (12)                            | (22)      |
| Net income (loss) available to common stockholders                         | \$ 2,987                         | \$ 2,319 | \$ 9,669                        | \$ (91)   |
| Total weighted-average basic common shares outstanding                     | 438.8                            | 457.8    | 449.2                           | 457.4     |
| Effect of dilutive securities: <sup>(1)</sup>                              |                                  |          |                                 |           |
| Stock options  | 0.6                              | 0.4      | 0.7                             | 0.0       |
| Other contingently issuable shares   | 1.1                              | 0.3      | 1.0                             | 0.0       |
| Total effect of dilutive securities  | 1.7                              | 0.7      | 1.7                             | 0.0       |
| Total weighted-average diluted common shares outstanding                   | 440.5                            | 458.5    | 450.9                           | 457.4     |
| <b>Basic earnings per common share:</b>                                    |                                  |          |                                 |           |
| Net income (loss) from continuing operations                               | \$ 6.81                          | \$ 5.07  | \$ 21.53                        | \$ (0.20) |
| Income (loss) from discontinued operations                                 | 0.00                             | 0.00     | (0.01)                          | 0.00      |
| Net income (loss) per basic common share                                   | \$ 6.81                          | \$ 5.07  | \$ 21.52                        | \$ (0.20) |
| <b>Diluted earnings per common share:<sup>(1)</sup></b>                    |                                  |          |                                 |           |
| Net income (loss) from continuing operations                               | \$ 6.78                          | \$ 5.06  | \$ 21.45                        | \$ (0.20) |
| Income (loss) from discontinued operations                                 | 0.00                             | 0.00     | (0.01)                          | 0.00      |
| Net income (loss) per diluted common share                                 | \$ 6.78                          | \$ 5.06  | \$ 21.44                        | \$ (0.20) |

<sup>(1)</sup> Excluded from the computation of diluted earnings per share were awards of 34 thousand shares for the nine months ended September 30, 2021, and 774 thousand shares related to options with an exercise price ranging from \$70.96 to \$86.34 for the three months ended September 30, 2020, respectively, because their inclusion would be anti-dilutive. In periods of net loss available to common stockholders, dilutive securities are excluded as their inclusion would have an anti-dilutive effect. Accordingly, for the nine months ended September 30, 2020, awards of 762 thousand shares and options of 2.7 million shares with an exercise price ranging from \$36.55 to \$86.34 were excluded from the computation of diluted earnings per share.

## NOTE 11—FAIR VALUE MEASUREMENT

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

- Level 1: Valuation is based on quoted prices (unadjusted) in active markets for identical assets or liabilities.
- Level 2: Valuation is based on observable market-based inputs other than Level 1 prices, such as quoted prices for similar assets or liabilities, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities.
- Level 3: Valuation is generated from techniques that use significant assumptions not observable in the market. Valuation techniques include pricing models, discounted cash flow methodologies or similar techniques.

The accounting guidance for fair value measurements requires that we maximize the use of observable inputs and minimize the use of unobservable inputs in determining fair value. The accounting guidance provides for the irrevocable option to elect, on a contract-by-contract basis, to measure certain financial assets and liabilities at fair value at inception of the contract and record any subsequent changes in fair value in earnings.

The determination and classification of financial instruments in the fair value hierarchy is performed at the end of each reporting period. We consider all available information, including observable market data, indications of market liquidity and orderliness, and our understanding of the valuation techniques and significant inputs. For additional information on the valuation techniques used in estimating the fair value of our financial assets and liabilities on a recurring basis, see “Note 16—Fair Value Measurement” in our 2020 Form 10-K.

### Assets and Liabilities Measured at Fair Value on a Recurring Basis

The following table displays our assets and liabilities measured on our consolidated balance sheets at fair value on a recurring basis as of September 30, 2021 and December 31, 2020.

**Table 11.1: Assets and Liabilities Measured at Fair Value on a Recurring Basis**

| <i>(Dollars in millions)</i>               | September 30, 2021            |                  |               |                                       |                   |
|--|-------------------------------|------------------|---------------|---------------------------------------|-------------------|
|  | Fair Value Measurements Using |                  |               | Netting<br>Adjustments <sup>(1)</sup> | Total             |
|  | Level 1                       | Level 2          | Level 3       |                                       |                   |
| <b>Assets:</b>                             |                               |                  |               |                                       |                   |
| Securities available for sale:             |                               |                  |               |                                       |                   |
| U.S. Treasury securities                   | \$ 9,109                      | \$ 0             | \$ 0          | —                                     | \$ 9,109          |
| RMBS                                       | 0                             | 75,428           | 253           | —                                     | 75,681            |
| CMBS                                       | 0                             | 10,188           | 9             | —                                     | 10,197            |
| Other securities                           | 152                           | 3,010            | 0             | —                                     | 3,162             |
| <b>Total securities available for sale</b> | <b>9,261</b>                  | <b>88,626</b>    | <b>262</b>    | <b>—</b>                              | <b>98,149</b>     |
| Loans held for sale                        | 0                             | 1,707            | 0             | —                                     | 1,707             |
| Other assets:                              |                               |                  |               |                                       |                   |
| Derivative assets <sup>(2)</sup>           | 955                           | 3,758            | 191           | \$ (975)                              | 3,929             |
| Other <sup>(3)</sup>                       | 514                           | 16               | 43            | —                                     | 573               |
| <b>Total assets</b>                        | <b>\$ 10,730</b>              | <b>\$ 94,107</b> | <b>\$ 496</b> | <b>\$ (975)</b>                       | <b>\$ 104,358</b> |
| <b>Liabilities:</b>                        |                               |                  |               |                                       |                   |
| Other liabilities:                         |                               |                  |               |                                       |                   |
| Derivative liabilities <sup>(2)</sup>      | \$ 1,904                      | \$ 1,407         | \$ 152        | \$ (904)                              | \$ 2,559          |
| <b>Total liabilities</b>                   | <b>\$ 1,904</b>               | <b>\$ 1,407</b>  | <b>\$ 152</b> | <b>\$ (904)</b>                       | <b>\$ 2,559</b>   |

| (Dollars in millions)                      | December 31, 2020             |                  |               |                                       |                   |
|--|-------------------------------|------------------|---------------|---------------------------------------|-------------------|
|  | Fair Value Measurements Using |                  |               | Netting<br>Adjustments <sup>(1)</sup> | Total             |
|  | Level 1                       | Level 2          | Level 3       |                                       |                   |
| <b>Assets:</b>                             |                               |                  |               |                                       |                   |
| Securities available for sale:             |                               |                  |               |                                       |                   |
| U.S. Treasury securities                   | \$ 9,318                      | \$ 0             | \$ 0          | —                                     | \$ 9,318          |
| RMBS                                       | 0                             | 76,375           | 328           | —                                     | 76,703            |
| CMBS                                       | 0                             | 11,624           | 111           | —                                     | 11,735            |
| Other securities                           | 142                           | 2,547            | 0             | —                                     | 2,689             |
| <b>Total securities available for sale</b> | <b>9,460</b>                  | <b>90,546</b>    | <b>439</b>    | <b>—</b>                              | <b>100,445</b>    |
| Loans held for sale                        | 0                             | 596              | 0             | —                                     | 596               |
| Other assets:                              |                               |                  |               |                                       |                   |
| Derivative assets <sup>(2)</sup>           | 268                           | 3,006            | 141           | \$ (1,148)                            | 2,267             |
| Other <sup>(3)</sup>                       | 430                           | 552              | 55            | —                                     | 1,037             |
| <b>Total assets</b>                        | <b>\$ 10,158</b>              | <b>\$ 94,700</b> | <b>\$ 635</b> | <b>\$ (1,148)</b>                     | <b>\$ 104,345</b> |
| <b>Liabilities:</b>                        |                               |                  |               |                                       |                   |
| Other liabilities:                         |                               |                  |               |                                       |                   |
| Derivative liabilities <sup>(2)</sup>      | \$ 271                        | \$ 1,137         | \$ 110        | \$ (739)                              | \$ 779            |
| <b>Total liabilities</b>                   | <b>\$ 271</b>                 | <b>\$ 1,137</b>  | <b>\$ 110</b> | <b>\$ (739)</b>                       | <b>\$ 779</b>     |

<sup>(1)</sup> Represents balance sheet netting of derivative assets and liabilities, and related payables and receivables for cash collateral held or placed with the same counterparty. See “Note 8—Derivative Instruments and Hedging Activities” for additional information.

<sup>(2)</sup> Does not reflect \$17 million and \$31 million recognized as a net valuation allowance on derivative assets and liabilities for non-performance risk as of September 30, 2021 and December 31, 2020, respectively. Non-performance risk is included in derivative assets and liabilities, which are part of other assets and other liabilities on the consolidated balance sheets, and is offset through non-interest income in the consolidated statements of income.

<sup>(3)</sup> As of September 30, 2021 and December 31, 2020, other includes retained interests in securitizations of \$43 million and \$55 million, deferred compensation plan assets of \$463 million and \$414 million, and equity securities of \$67 million and \$568 million including unrealized gains of \$43 million and \$535 million, respectively.

### Level 3 Recurring Fair Value Rollforward

The table below presents a reconciliation for all assets and liabilities measured and recognized at fair value on a recurring basis using significant unobservable inputs (Level 3) for the three and nine months ended September 30, 2021 and 2020. Generally, transfers into Level 3 were primarily driven by the usage of unobservable assumptions in the pricing of these financial instruments as evidenced by wider pricing variations among pricing vendors and transfers out of Level 3 were primarily driven by the usage of assumptions corroborated by market observable information as evidenced by tighter pricing among multiple pricing sources.

**Table 11.2: Level 3 Recurring Fair Value Rollforward**

|  | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |   |                    |           |       |           |             |                              |                                |                                   |   |
|--|---|---|--------------------|-----------|-------|-----------|-------------|------------------------------|--------------------------------|-----------------------------------|---|
|  | Three Months Ended September 30, 2021                                   |   |                    |           |       |           |             |                              |                                |                                   |   |
|  | Balance,<br>July 1, 2021  | Total Gains (Losses)<br>(Realized/Unrealized) |                    | Purchases | Sales | Issuances | Settlements | Transfers<br>Into<br>Level 3 | Transfers<br>Out of<br>Level 3 | Balance,<br>September 30,<br>2021 | Net Unrealized Gains (Losses)<br>Included in Net Income<br>Related to Assets and<br>Liabilities Still Held as of<br>September 30, 2021 <sup>(4)</sup> |
| (Dollars in millions)                              |   | Included<br>in Net<br>Income <sup>(1)</sup>   | Included in<br>OCI |           |       |           |             |                              |                                |                                   |   |
| Securities available for sale: <sup>(2)</sup>      |   |   |                    |           |       |           |             |                              |                                |                                   |   |
| RMBS   | \$ 289  | \$ 4  | \$ (1)             | \$ 0      | \$ 0  | \$ 0      | \$ (23)     | \$ 4                         | \$ (20)                        | \$ 253                            | \$ 4  |
| CMBS   | 9   | 0   | 1                  | 0         | 0     | 0         | (1)         | 0                            | 0                              | 9                                 | 0   |
| Total securities available for sale                | 298   | 4   | 0                  | 0         | 0     | 0         | (24)        | 4                            | (20)                           | 262                               | 4   |
| Other assets:                                      |   |   |                    |           |       |           |             |                              |                                |                                   |   |
| Retained interests in securitizations              | 46  | (3)   | 0                  | 0         | 0     | 0         | 0           | 0                            | 0                              | 43                                | (3)   |
| Net derivative assets (liabilities) <sup>(4)</sup> | 19  | (31)  | 0                  | 0         | 0     | 44        | 6           | 0                            | 1                              | 39                                | (29)  |

|  | Fair Value Measurements Using Significant Unobservable Inputs (Level 3) |   |                    |           |       |           |             |                              |                                |                                   |   |
|--|---|---|--------------------|-----------|-------|-----------|-------------|------------------------------|--------------------------------|-----------------------------------|---|
|  | Nine Months Ended September 30, 2021                                    |   |                    |           |       |           |             |                              |                                |                                   |   |
|  | Balance,<br>January 1,<br>2021  | Total Gains (Losses)<br>(Realized/Unrealized) |                    | Purchases | Sales | Issuances | Settlements | Transfers<br>Into<br>Level 3 | Transfers<br>Out of<br>Level 3 | Balance,<br>September 30,<br>2021 | Net Unrealized Gains (Losses)<br>Included in Net Income<br>Related to Assets and<br>Liabilities Still Held as of<br>September 30, 2021 <sup>(4)</sup> |
| (Dollars in millions)                              |   | Included<br>in Net<br>Income <sup>(1)</sup>   | Included in<br>OCI |           |       |           |             |                              |                                |                                   |   |
| Securities available for sale: <sup>(2)</sup>      |   |   |                    |           |       |           |             |                              |                                |                                   |   |
| RMBS   | \$ 328  | \$ 15   | \$ 3               | \$ 0      | \$ 0  | \$ 0      | \$ (74)     | \$ 88                        | \$ (107)                       | \$ 253                            | \$ 11   |
| CMBS   | 111   | 0   | (1)                | 0         | 0     | 0         | (7)         | 0                            | (94)                           | 9                                 | 0   |
| Total securities available for sale                | 439   | 15  | 2                  | 0         | 0     | 0         | (81)        | 88                           | (201)                          | 262                               | 11  |
| Other assets:                                      |   |   |                    |           |       |           |             |                              |                                |                                   |   |
| Retained interests in securitizations              | 55  | (12)  | 0                  | 0         | 0     | 0         | 0           | 0                            | 0                              | 43                                | (12)  |
| Net derivative assets (liabilities) <sup>(4)</sup> | 31  | (41)  | 0                  | 0         | 0     | 66        | (23)        | 6                            | 0                              | 39                                | (32)  |

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**Three Months Ended September 30, 2020**

| <i>(Dollars in millions)</i>                        | Total Gains (Losses)<br>(Realized/Unrealized) |   | Purchases | Sales | Issuances | Settlements | Transfers<br>Into<br>Level 3 | Transfers<br>Out of<br>Level 3 | Balance,<br>September 30,<br>2020 | Net Unrealized Gains (Losses)<br>Included in Net Income<br>Related to Assets and<br>Liabilities Still Held as of<br>September 30, 2020 <sup>(1)</sup> |
|---|---|---|-----------|-------|-----------|-------------|------------------------------|--------------------------------|-----------------------------------|---|
|   | Balance,<br>July 1, 2020                      | Included<br>in Net<br>Income <sup>(1)</sup> |           |       |           |             |                              |                                |                                   |   |
| <b>Securities available for sale:<sup>(2)</sup></b> |   |   |           |       |           |             |                              |                                |                                   |   |
| RMBS  | \$ 474  | \$ 10                                       | \$ 3      | \$ 0  | \$ 0      | \$ (22)     | \$ 56                        | \$ (47)                        | \$ 474                            | \$ 10   |
| CMBS  | 282   | (1)   | 1         | 0     | 0         | (8)         | 98                           | 0                              | 372                               | (1)   |
| Total securities available for sale                 | 756   | 9   | 4         | 0     | 0         | (30)        | 154                          | (47)                           | 846                               | 9   |
| <b>Other assets:</b>                                |   |   |           |       |           |             |                              |                                |                                   |   |
| Retained interests in securitizations               | 56  | 0   | 0         | 0     | 0         | 0           | 0                            | 0                              | 56                                | 0   |
| Net derivative assets (liabilities) <sup>(4)</sup>  | 34  | 8   | 0         | 0     | 13        | (2)         | 0                            | (9)                            | 44                                | 0   |

**Fair Value Measurements Using Significant Unobservable Inputs (Level 3)**  
**Nine Months Ended September 30, 2020**

| <i>(Dollars in millions)</i>                           | Total Gains (Losses)<br>(Realized/Unrealized) |   | Purchases | Sales | Issuances | Settlements | Transfers<br>Into<br>Level 3 | Transfers<br>Out of<br>Level 3 | Balance,<br>September 30,<br>2020 | Net Unrealized Gains (Losses)<br>Included in Net Income<br>Related to Assets and<br>Liabilities Still Held as of<br>September 30, 2020 <sup>(1)</sup> |
|--|---|---|-----------|-------|-----------|-------------|------------------------------|--------------------------------|-----------------------------------|---|
|  | Balance,<br>January 1,<br>2020                | Included<br>in Net<br>Income <sup>(1)</sup> |           |       |           |             |                              |                                |                                   |   |
| <b>Securities available for sale:<sup>(2)(3)</sup></b> |   |   |           |       |           |             |                              |                                |                                   |   |
| RMBS   | \$ 433  | \$ 19                                       | \$ (21)   | \$ 0  | \$ 0      | \$ (55)     | \$ 196                       | \$ (98)                        | \$ 474                            | \$ 20   |
| CMBS   | 13  | (1)   | 0         | 0     | 0         | (11)        | 371                          | 0                              | 372                               | (4)   |
| Total securities available for sale                    | 446   | 18  | (21)      | 0     | 0         | (66)        | 567                          | (98)                           | 846                               | 16  |
| <b>Other assets:</b>                                   |   |   |           |       |           |             |                              |                                |                                   |   |
| Retained interests in securitizations                  | 66  | (10)  | 0         | 0     | 0         | 0           | 0                            | 0                              | 56                                | (10)  |
| Net derivative assets (liabilities) <sup>(4)</sup>     | 26  | 20  | 0         | 0     | 39        | (30)        | 0                            | (11)                           | 44                                | 18  |

<sup>(1)</sup> Realized gains (losses) on securities available for sale are included in net securities gains (losses) and retained interests in securitizations are reported as a component of non-interest income in our consolidated statements of income. Gains (losses) on derivatives are included as a component of net interest income or non-interest income in our consolidated statements of income.

<sup>(2)</sup> For the three and nine months ended September 30, 2021, included in OCI related to Level 3 securities available for sale still held as of September 30, 2021 were no net unrealized gains and \$3 million of net unrealized gains, respectively. For the three and nine months ended September 30, 2020, included in OCI related to Level 3 securities available for sale still held as of September 30, 2020 were net unrealized gains of \$5 million and net unrealized losses of \$16 million, respectively.

<sup>(3)</sup> The fair value of RMBS as of January 1, 2020 includes a cumulative adjustment of \$4 million from the adoption of the CECL standard.

<sup>(4)</sup> Includes derivative assets and liabilities of \$191 million and \$152 million, respectively, as of September 30, 2021 and \$153 million and \$109 million, respectively, as of September 30, 2020.

### **Significant Level 3 Fair Value Asset and Liability Inputs**

Generally, uncertainties in fair value measurements of financial instruments, such as changes in unobservable inputs, may have a significant impact on fair value. Certain of these unobservable inputs will, in isolation, have a directionally consistent impact on the fair value of the instrument for a given change in that input. Alternatively, the fair value of the instrument may move in an opposite direction for a given change in another input. In general, an increase in the discount rate, default rates, loss severity and credit spreads, in isolation, would result in a decrease in the fair value measurement. In addition, an increase in default rates would generally be accompanied by a decrease in recovery rates, slower prepayment rates and an increase in liquidity spreads.

### **Techniques and Inputs for Level 3 Fair Value Measurements**

The following table presents the significant unobservable inputs used to determine the fair values of our Level 3 financial instruments on a recurring basis. We utilize multiple vendor pricing services to obtain fair value for our securities. Several of our vendor pricing services are only able to provide unobservable input information for a limited number of securities due to software licensing restrictions. Other vendor pricing services are able to provide unobservable input information for all securities for which they provide a valuation. As a result, the unobservable input information for the securities available for sale presented below represents a composite summary of all information we are able to obtain. The unobservable input information for all other Level 3 financial instruments is based on the assumptions used in our internal valuation models.

**Table 11.3: Quantitative Information about Level 3 Fair Value Measurements**

| Quantitative Information about Level 3 Fair Value Measurements |                                  |  |                                 |         |                                 |
|--|----------------------------------|--|---------------------------------|---------|---------------------------------|
| <i>(Dollars in millions)</i>                                   | Fair Value at September 30, 2021 | Significant Valuation Techniques       | Significant Unobservable Inputs | Range   | Weighted Average <sup>(1)</sup> |
| Securities available for sale:                                 |                                  |  |                                 |         |                                 |
| RMBS   | \$ 253                           | Discounted cash flows (vendor pricing) | Yield                           | 0-17%   | 3%                              |
|  |                                  |  | Voluntary prepayment rate       | 5-20%   | 11%                             |
|  |                                  |  | Default rate                    | 1-11%   | 2%                              |
|  |                                  |  | Loss severity                   | 30-100% | 68%                             |
| CMBS   | 9                                | Discounted cash flows (vendor pricing) | Yield                           | 1%      | 1%                              |
| Other assets:  |                                  |  |                                 |         |                                 |
| Retained interests in securitizations <sup>(2)</sup>           | 43                               | Discounted cash flows                  | Life of receivables (months)    | 30-36   | N/A                             |
|  |                                  |  | Voluntary prepayment rate       | 9-17%   |                                 |
|  |                                  |  | Discount rate                   | 2-8%    |                                 |
|  |                                  |  | Default rate                    | 2-4%    |                                 |
|  |                                  |  | Loss severity                   | 56-151% |                                 |
| Net derivative assets (liabilities)                            | 39                               | Discounted cash flows                  | Swap rates                      | 1-2%    | 1%                              |
| Quantitative Information about Level 3 Fair Value Measurements |                                  |  |                                 |         |                                 |
| <i>(Dollars in millions)</i>                                   | Fair Value at December 31, 2020  | Significant Valuation Techniques       | Significant Unobservable Inputs | Range   | Weighted Average <sup>(1)</sup> |
| Securities available for sale:                                 |                                  |  |                                 |         |                                 |
| RMBS   | \$ 328                           | Discounted cash flows (vendor pricing) | Yield                           | 2-12%   | 3%                              |
|  |                                  |  | Voluntary prepayment rate       | 8-15%   | 10%                             |
|  |                                  |  | Default rate                    | 0-11%   | 2%                              |
|  |                                  |  | Loss severity                   | 30-100% | 73%                             |
| CMBS   | 111                              | Discounted cash flows (vendor pricing) | Yield                           | 1-3%    | 2%                              |
| Other assets:  |                                  |  |                                 |         |                                 |
| Retained interests in securitizations <sup>(2)</sup>           | 55                               | Discounted cash flows                  | Life of receivables (months)    | 37-52   | N/A                             |
|  |                                  |  | Voluntary prepayment rate       | 3-13%   |                                 |
|  |                                  |  | Discount rate                   | 2-12%   |                                 |
|  |                                  |  | Default rate                    | 3-3%    |                                 |
|  |                                  |  | Loss severity                   | 55-70%  |                                 |
| Net derivative assets (liabilities)                            | 31                               | Discounted cash flows                  | Swap rates                      | 1%      | 1%                              |

<sup>(1)</sup> Weighted averages are calculated by using the product of the input multiplied by the relative fair value of the instruments.

<sup>(2)</sup> Due to the nature of the various mortgage securitization structures in which we have retained interests, it is not meaningful to present a consolidated weighted average for the significant unobservable inputs.

## Assets and Liabilities Measured at Fair Value on a Nonrecurring Basis

We are required to measure and recognize certain assets at fair value on a nonrecurring basis on the consolidated balance sheets. These assets are not measured at fair value on an ongoing basis but are subject to fair value adjustments in certain circumstances (for example, from the application of lower of cost or fair value accounting or when we evaluate for impairment).

The following table presents the carrying value of the assets measured at fair value on a nonrecurring basis and still held as of September 30, 2021 and December 31, 2020, and for which a nonrecurring fair value measurement was recorded during the nine and twelve months then ended.

**Table 11.4: Nonrecurring Fair Value Measurements**

| <i>(Dollars in millions)</i> | September 30, 2021                |               |               |
|------------------------------|-----------------------------------|---------------|---------------|
|                              | Estimated<br>Fair Value Hierarchy |               |               |
|                              | Level 2                           | Level 3       | Total         |
| Loans held for investment    | \$ 0                              | \$ 126        | \$ 126        |
| Other assets <sup>(1)</sup>  | 0                                 | 175           | 175           |
| <b>Total</b>                 | <b>\$ 0</b>                       | <b>\$ 301</b> | <b>\$ 301</b> |

  

| <i>(Dollars in millions)</i> | December 31, 2020                 |               |               |
|------------------------------|-----------------------------------|---------------|---------------|
|                              | Estimated<br>Fair Value Hierarchy |               |               |
|                              | Level 2                           | Level 3       | Total         |
| Loans held for investment    | \$ 0                              | \$ 305        | \$ 305        |
| Other assets <sup>(1)</sup>  | 0                                 | 175           | 175           |
| <b>Total</b>                 | <b>\$ 0</b>                       | <b>\$ 480</b> | <b>\$ 480</b> |

<sup>(1)</sup> As of September 30, 2021, other assets included equity method investments subject to impairment of \$53 million, investments accounted for under measurement alternative of \$15 million, repossessed assets of \$39 million and long-lived assets held for sale of \$68 million. As of December 31, 2020, other assets included equity investments accounted for under the measurement alternative of \$25 million, repossessed assets of \$42 million and long-lived assets held for sale of \$108 million.

In the above table, loans held for investment are generally valued based in part on the estimated fair value of the underlying collateral and the non-recoverable rate, which is considered to be a significant unobservable input. The non-recoverable rate ranged from 0% to 100%, with a weighted average of 14%, and from 0% to 89%, with a weighted average of 14%, as of September 30, 2021 and December 31, 2020, respectively. The weighted average non-recoverable rate is calculated based on the estimated market value of the underlying collateral. The significant unobservable inputs and related quantitative information related to fair value of the other assets are not meaningful to disclose as they vary significantly across properties and collateral.

The following table presents total nonrecurring fair value measurements for the period, included in earnings, attributable to the change in fair value relating to assets that are still held at September 30, 2021 and December 31, 2020.

**Table 11.5: Nonrecurring Fair Value Measurements Included in Earnings**

| <i>(Dollars in millions)</i> | Total Gains (Losses)            |               |
|------------------------------|---------------------------------|---------------|
|                              | Nine Months Ended September 30, |               |
|                              | 2021                            | 2020          |
| Loans held for investment    | \$ 12                           | \$ 187        |
| Other assets <sup>(1)</sup>  | (65)                            | (42)          |
| <b>Total</b>                 | <b>\$ (53)</b>                  | <b>\$ 145</b> |

<sup>(1)</sup> Other assets include fair value adjustments related to repossessed assets, long-lived assets held for sale and equity investments accounted for under the measurement alternative.

## Fair Value of Financial Instruments

The following table presents the carrying value and estimated fair value, including the level within the fair value hierarchy, of our financial instruments that are not measured at fair value on a recurring basis on our consolidated balance sheets as of September 30, 2021 and December 31, 2020.

**Table 11.6: Fair Value of Financial Instruments**

| <i>(Dollars in millions)</i>   | September 30, 2021 |                      |                                |           |         |
|--|--------------------|----------------------|--------------------------------|-----------|---------|
|  | Carrying Value     | Estimated Fair Value | Estimated Fair Value Hierarchy |           |         |
|  |                    |                      | Level 1                        | Level 2   | Level 3 |
| <b>Financial assets:</b>   |                    |                      |                                |           |         |
| Cash and cash equivalents  | \$ 26,624          | \$ 26,624            | \$ 5,444                       | \$ 21,180 | \$ 0    |
| Restricted cash for securitization investors   | 234                | 234                  | 234                            | 0         | 0       |
| Net loans held for investment  | 249,817            | 254,878              | 0                              | 0         | 254,878 |
| Loans held for sale  | 4,593              | 4,880                | 0                              | 4,880     | 0       |
| Interest receivable  | 1,418              | 1,418                | 0                              | 1,418     | 0       |
| Other investments <sup>(1)</sup>   | 1,344              | 1,344                | 0                              | 1,344     | 0       |
| <b>Financial liabilities:</b>  |                    |                      |                                |           |         |
| Deposits with defined maturities   | 19,283             | 19,483               | 0                              | 19,483    | 0       |
| Securitized debt obligations   | 12,635             | 12,782               | 0                              | 12,782    | 0       |
| Senior and subordinated notes  | 23,983             | 24,754               | 0                              | 24,754    | 0       |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 825                | 825                  | 0                              | 825       | 0       |
| Interest payable   | 241                | 241                  | 0                              | 241       | 0       |
|  |                    |                      |                                |           |         |
| <i>(Dollars in millions)</i>   | December 31, 2020  |                      |                                |           |         |
|  | Carrying Value     | Estimated Fair Value | Estimated Fair Value Hierarchy |           |         |
|  |                    |                      | Level 1                        | Level 2   | Level 3 |
| <b>Financial assets:</b>   |                    |                      |                                |           |         |
| Cash and cash equivalents  | \$ 40,509          | \$ 40,509            | \$ 4,708                       | \$ 35,801 | \$ 0    |
| Restricted cash for securitization investors   | 262                | 262                  | 262                            | 0         | 0       |
| Net loans held for investment  | 236,060            | 244,701              | 0                              | 0         | 244,701 |
| Loans held for sale  | 2,114              | 2,214                | 0                              | 2,214     | 0       |
| Interest receivable  | 1,471              | 1,471                | 0                              | 1,471     | 0       |
| Other investments <sup>(1)</sup>   | 1,341              | 1,341                | 0                              | 1,341     | 0       |
| <b>Financial liabilities:</b>  |                    |                      |                                |           |         |
| Deposits with defined maturities   | 32,746             | 33,111               | 0                              | 33,111    | 0       |
| Securitized debt obligations   | 12,414             | 12,584               | 0                              | 12,584    | 0       |
| Senior and subordinated notes  | 27,382             | 28,282               | 0                              | 28,282    | 0       |
| Federal funds purchased and securities loaned or sold under agreements to repurchase | 668                | 668                  | 0                              | 668       | 0       |
| Interest payable   | 352                | 352                  | 0                              | 352       | 0       |

<sup>(1)</sup> Other investments include FHLB and Federal Reserve stock. These investments are included in other assets on our consolidated balance sheets.

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**NOTE 12—BUSINESS SEGMENTS AND REVENUE FROM CONTRACTS WITH CUSTOMERS**

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Our principal operations are organized into three major business segments, which are defined primarily based on the products and services provided or the types of customers served: Credit Card, Consumer Banking and Commercial Banking. The operations of acquired businesses have been integrated into or managed as a part of our existing business segments. Certain activities that are not part of a segment, such as management of our corporate investment portfolio, asset/liability management by our centralized Corporate Treasury group and residual tax expense or benefit to arrive at the consolidated effective tax rate that is not assessed to our primary business segments, are included in the Other category.

**Basis of Presentation**

We report the results of each of our business segments on a continuing operations basis. The results of our individual businesses reflect the manner in which management evaluates performance and makes decisions about funding our operations and allocating resources.

**Business Segment Reporting Methodology**

The results of our business segments are intended to present each segment as if it were a stand-alone business. Our internal management and reporting process used to derive our segment results employs various allocation methodologies, including funds transfer pricing, to assign certain balance sheet assets, deposits and other liabilities and their related revenue and expenses directly or indirectly attributable to each business segment. Our funds transfer pricing process provides a funds credit for sources of funds, such as deposits generated by our Consumer Banking and Commercial Banking businesses, and a funds charge for the use of funds by each segment. Due to the integrated nature of our business segments, estimates and judgments have been made in allocating certain revenue and expense items. Transactions between segments are based on specific criteria or approximate third-party rates. We regularly assess the assumptions, methodologies and reporting classifications used for segment reporting, which may result in the implementation of refinements or changes in future periods. We provide additional information on the allocation methodologies used to derive our business segment results in “Note 17—Business Segments and Revenue from Contracts with Customers” in our 2020 Form 10-K.

**Segment Results and Reconciliation**

We may periodically change our business segments or reclassify business segment results based on modifications to our management reporting methodologies or changes in organizational alignment. The following table presents our business segment results for the three and nine months ended September 30, 2021 and 2020, selected balance sheet data as of September 30, 2021 and 2020, and a reconciliation of our total business segment results to our reported consolidated income from continuing operations, loans held for investment and deposits.

**Table 12.1: Segment Results and Reconciliation**

|  | Three Months Ended September 30, 2021 |                  |                                   |                      |                    |
|--|---------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                                 | Credit Card                           | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Net interest income (loss)                                   | \$ 3,620                              | \$ 2,159         | \$ 578                            | \$ (201)             | \$ 6,156           |
| Non-interest income (loss)                                   | 1,263                                 | 127              | 306                               | (22)                 | 1,674              |
| Total net revenue (loss) <sup>(2)</sup>                      | 4,883                                 | 2,286            | 884                               | (223)                | 7,830              |
| Provision (benefit) for credit losses                        | (198)                                 | (91)             | (53)                              | 0                    | (342)              |
| Non-interest expense   | 2,424                                 | 1,186            | 459                               | 117                  | 4,186              |
| Income (loss) from continuing operations before income taxes | 2,657                                 | 1,191            | 478                               | (340)                | 3,986              |
| Income tax provision (benefit)                               | 627                                   | 282              | 113                               | (140)                | 882                |
| Income (loss) from continuing operations, net of tax         | \$ 2,030                              | \$ 909           | \$ 365                            | \$ (200)             | \$ 3,104           |
| Loans held for investment                                    | \$ 105,030                            | \$ 77,112        | \$ 79,248                         | \$ 0                 | \$ 261,390         |
| Deposits   | 0                                     | 252,387          | 43,347                            | 10,204               | 305,938            |

  

|  | Nine Months Ended September 30, 2021 |                  |                                   |                      |                    |
|--|--------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                                 | Credit Card                          | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Net interest income (loss)                                   | \$ 10,209                            | \$ 6,290         | \$ 1,558                          | \$ (336)             | \$ 17,721          |
| Non-interest income (loss)                                   | 3,545                                | 412              | 803                               | (164)                | 4,596              |
| Total net revenue (loss) <sup>(2)</sup>                      | 13,754                               | 6,702            | 2,361                             | (500)                | 22,317             |
| Benefit for credit losses                                    | (1,325)                              | (523)            | (475)                             | (2)                  | (2,325)            |
| Non-interest expense   | 6,822                                | 3,426            | 1,295                             | 349                  | 11,892             |
| Income (loss) from continuing operations before income taxes | 8,257                                | 3,799            | 1,541                             | (847)                | 12,750             |
| Income tax provision (benefit)                               | 1,952                                | 897              | 364                               | (431)                | 2,782              |
| Income (loss) from continuing operations, net of tax         | \$ 6,305                             | \$ 2,902         | \$ 1,177                          | \$ (416)             | \$ 9,968           |
| Loans held for investment                                    | \$ 105,030                           | \$ 77,112        | \$ 79,248                         | \$ 0                 | \$ 261,390         |
| Deposits   | 0                                    | 252,387          | 43,347                            | 10,204               | 305,938            |

  

|  | Three Months Ended September 30, 2020 |                  |                                   |                      |                    |
|--|---------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                                 | Credit Card                           | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Net interest income (loss)                                   | \$ 3,292                              | \$ 1,904         | \$ 517                            | \$ (158)             | \$ 5,555           |
| Non-interest income (loss)                                   | 1,013                                 | 107              | 237                               | 469                  | 1,826              |
| Total net revenue (loss) <sup>(2)</sup>                      | 4,305                                 | 2,011            | 754                               | 311                  | 7,381              |
| Provision (benefit) for credit losses                        | 450                                   | (43)             | (74)                              | (2)                  | 331                |
| Non-interest expense   | 2,003                                 | 1,011            | 424                               | 110                  | 3,548              |
| Income (loss) from continuing operations before income taxes | 1,852                                 | 1,043            | 404                               | 203                  | 3,502              |
| Income tax provision   | 438                                   | 247              | 95                                | 316                  | 1,096              |
| Income (loss) from continuing operations, net of tax         | \$ 1,414                              | \$ 796           | \$ 309                            | \$ (113)             | \$ 2,406           |
| Loans held for investment                                    | \$ 103,641                            | \$ 68,688        | \$ 75,894                         | \$ 0                 | \$ 248,223         |
| Deposits   | 0                                     | 249,684          | 36,783                            | 19,258               | 305,725            |

| <i>(Dollars in millions)</i>                                 | Nine Months Ended September 30, 2020 |                  |                                   |                      |                    |
|--|--------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
|  | Credit Card                          | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Net interest income (loss)                                   | \$ 10,363                            | \$ 5,226         | \$ 1,526                          | \$ (75)              | \$ 17,040          |
| Non-interest income  | 2,769                                | 330              | 655                               | 392                  | 4,146              |
| Total net revenue <sup>(2)</sup>                             | 13,132                               | 5,556            | 2,181                             | 317                  | 21,186             |
| Provision for credit losses                                  | 7,096                                | 1,693            | 1,209                             | 2                    | 10,000             |
| Non-interest expense   | 6,180                                | 3,038            | 1,261                             | 568                  | 11,047             |
| Income (loss) from continuing operations before income taxes | (144)                                | 825              | (289)                             | (253)                | 139                |
| Income tax provision (benefit)                               | (34)                                 | 195              | (69)                              | (102)                | (10)               |
| Income (loss) from continuing operations, net of tax         | \$ (110)                             | \$ 630           | \$ (220)                          | \$ (151)             | \$ 149             |
| Loans held for investment                                    | \$ 103,641                           | \$ 68,688        | \$ 75,894                         | \$ 0                 | \$ 248,223         |
| Deposits   | 0                                    | 249,684          | 36,783                            | 19,258               | 305,725            |

<sup>(1)</sup> Some of our commercial investments generate tax-exempt income, tax credits or other tax benefits. Accordingly, we present our Commercial Banking revenue and yields on a taxable-equivalent basis, calculated using the federal statutory tax rate of 21% and state taxes where applicable, with offsetting reductions to the Other category.

<sup>(2)</sup> Total net revenue was reduced by \$123 million and \$478 million in the three and nine months ended September 30, 2021, respectively, and \$235 million and \$942 million in the three and nine months ended September 30, 2020, respectively, for credit card finance charges and fees charged off as uncollectible.

### Revenue from Contracts with Customers

The majority of our revenue from contracts with customers consists of interchange fees, service charges and other customer-related fees, and other contract revenue. Interchange fees are primarily from our Credit Card business and are recognized upon settlement with the interchange networks, net of rewards earned by customers. Service charges and other customer-related fees within our Consumer Banking business are primarily related to fees earned on consumer deposit accounts for account maintenance and various transaction-based services such as overdrafts and automated teller machine (“ATM”) usage. Service charges and other customer-related fees within our Commercial Banking business are mostly related to fees earned on treasury management and capital markets services. Other contract revenue in our Credit Card business consists primarily of revenue from our partnership arrangements. Other contract revenue in our Consumer Banking business consists primarily of revenue earned on certain marketing and promotional events from our auto dealers. Revenue from contracts with customers is included in non-interest income in our consolidated statements of income.

The following table presents revenue from contracts with customers and a reconciliation to non-interest income by business segment for the three and nine months ended September 30, 2021 and 2020.

**Table 12.2: Revenue from Contracts with Customers and Reconciliation to Segment Results**

| <i>(Dollars in millions)</i>                    | Three Months Ended September 30, 2021 |                  |                                   |                      |                    |
|---|---------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
|   | Credit Card                           | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Contract revenue:                               |                                       |                  |                                   |                      |                    |
| Interchange fees, net <sup>(2)</sup>            | \$ 930                                | \$ 68            | \$ 24                             | \$ 0                 | \$ 1,022           |
| Service charges and other customer-related fees | 0                                     | 42               | 71                                | 0                    | 113                |
| Other   | 98                                    | 17               | 1                                 | 0                    | 116                |
| Total contract revenue                          | 1,028                                 | 127              | 96                                | 0                    | 1,251              |
| Revenue (reduction) from other sources          | 235                                   | 0                | 210                               | (22)                 | 423                |
| Total non-interest income (loss)                | \$ 1,263                              | \$ 127           | \$ 306                            | \$ (22)              | \$ 1,674           |

|   | Nine Months Ended September 30, 2021 |                  |                                   |                      |                    |
|---|--------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                    | Credit Card                          | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Contract revenue:                               |                                      |                  |                                   |                      |                    |
| Interchange fees, net <sup>(2)</sup>            | \$ 2,598                             | \$ 192           | \$ 65                             | \$ 0                 | \$ 2,855           |
| Service charges and other customer-related fees | 0                                    | 131              | 187                               | 0                    | 318                |
| Other   | 262                                  | 55               | 3                                 | 0                    | 320                |
| Total contract revenue                          | 2,860                                | 378              | 255                               | 0                    | 3,493              |
| Revenue (reduction) from other sources          | 685                                  | 34               | 548                               | (164)                | 1,103              |
| Total non-interest income (loss)                | <u>\$ 3,545</u>                      | <u>\$ 412</u>    | <u>\$ 803</u>                     | <u>\$ (164)</u>      | <u>\$ 4,596</u>    |

|   | Three Months Ended September 30, 2020 |                  |                                   |                      |                    |
|---|---------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                    | Credit Card                           | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Contract revenue:                               |                                       |                  |                                   |                      |                    |
| Interchange fees, net <sup>(2)</sup>            | \$ 703                                | \$ 54            | \$ 17                             | \$ 1                 | \$ 775             |
| Service charges and other customer-related fees | 0                                     | 42               | 50                                | 0                    | 92                 |
| Other   | 109                                   | 5                | 1                                 | 0                    | 115                |
| Total contract revenue                          | 812                                   | 101              | 68                                | 1                    | 982                |
| Revenue from other sources                      | 201                                   | 6                | 169                               | 468                  | 844                |
| Total non-interest income                       | <u>\$ 1,013</u>                       | <u>\$ 107</u>    | <u>\$ 237</u>                     | <u>\$ 469</u>        | <u>\$ 1,826</u>    |

|   | Nine Months Ended September 30, 2020 |                  |                                   |                      |                    |
|---|--------------------------------------|------------------|-----------------------------------|----------------------|--------------------|
| <i>(Dollars in millions)</i>                    | Credit Card                          | Consumer Banking | Commercial Banking <sup>(1)</sup> | Other <sup>(1)</sup> | Consolidated Total |
| Contract revenue:                               |                                      |                  |                                   |                      |                    |
| Interchange fees, net <sup>(2)</sup>            | \$ 2,003                             | \$ 152           | \$ 45                             | \$ (1)               | \$ 2,199           |
| Service charges and other customer-related fees | 0                                    | 137              | 124                               | (1)                  | 260                |
| Other   | 236                                  | 27               | 2                                 | 0                    | 265                |
| Total contract revenue                          | 2,239                                | 316              | 171                               | (2)                  | 2,724              |
| Revenue from other sources                      | 530                                  | 14               | 484                               | 394                  | 1,422              |
| Total non-interest income                       | <u>\$ 2,769</u>                      | <u>\$ 330</u>    | <u>\$ 655</u>                     | <u>\$ 392</u>        | <u>\$ 4,146</u>    |

<sup>(1)</sup> Some of our commercial investments generate tax-exempt income, tax credits or other tax benefits. Accordingly, we present our Commercial Banking revenue and yields on a taxable-equivalent basis, calculated using the federal statutory tax rate of 21% and state taxes where applicable, with offsetting reductions to the Other category.

<sup>(2)</sup> Interchange fees are presented net of customer reward expenses.

**NOTE 13—COMMITMENTS, CONTINGENCIES, GUARANTEES AND OTHERS****Commitments to Lend**

Our unfunded lending commitments primarily consist of credit card lines, loan commitments to customers of both our Commercial Banking and Consumer Banking businesses, as well as standby and commercial letters of credit. These commitments, other than credit card lines, are legally binding conditional agreements that have fixed expirations or termination dates and specified interest rates and purposes. The contractual amount of these commitments represents the maximum possible credit risk to us should the counterparty draw upon the commitment. We generally manage the potential risk of unfunded lending commitments by limiting the total amount of arrangements, monitoring the size and maturity structure of these portfolios and applying the same credit standards for all of our credit activities.

For unused credit card lines, we have not experienced and do not anticipate that all of our customers will access their entire available line at any given point in time. Commitments to extend credit other than credit card lines generally require customers to maintain certain credit standards. Collateral requirements and loan-to-value (“LTV”) ratios are the same as those for funded transactions and are established based on management’s credit assessment of the customer. These commitments may expire without being drawn upon; therefore, the total commitment amount does not necessarily represent future funding requirements.

We also issue letters of credit, such as financial standby, performance standby and commercial letters of credit, to meet the financing needs of our customers. Standby letters of credit are conditional commitments issued by us to guarantee the performance of a customer to a third party in a borrowing arrangement. Commercial letters of credit are short-term commitments issued primarily to facilitate trade finance activities for customers and are generally collateralized by the goods being shipped to the customer. These collateral requirements are similar to those for funded transactions and are established based on management’s credit assessment of the customer. Management conducts regular reviews of all outstanding letters of credit and the results of these reviews are considered in assessing the adequacy of reserves for unfunded lending commitments.

The following table presents the contractual amount and carrying value of our unfunded lending commitments as of September 30, 2021 and December 31, 2020. The carrying value represents our reserve and deferred revenue on legally binding commitments.

**Table 13.1: Unfunded Lending Commitments**

| <i>(Dollars in millions)</i>  | Contractual Amount |                   | Carrying Value     |                   |
|---|--------------------|-------------------|--------------------|-------------------|
|   | September 30, 2021 | December 31, 2020 | September 30, 2021 | December 31, 2020 |
| Credit card lines   | \$ 366,744         | \$ 349,594        | N/A                | N/A               |
| Other loan commitments <sup>(1)</sup>                                     | 40,545             | 35,836            | \$ 121             | \$ 144            |
| Standby letters of credit and commercial letters of credit <sup>(2)</sup> | 1,380              | 1,302             | 28                 | 32                |
| Total unfunded lending commitments  | \$ 408,669         | \$ 386,732        | \$ 149             | \$ 176            |

<sup>(1)</sup> Includes \$2.1 billion and \$1.8 billion of advised lines of credit as of September 30, 2021 and December 31, 2020, respectively.

<sup>(2)</sup> These financial guarantees have expiration dates that range from 2021 to 2023 as of September 30, 2021.

**Loss Sharing Agreements**

Within our Commercial Banking business, we originate multifamily commercial real estate loans with the intent to sell them to the GSEs. We enter into loss sharing agreements with the GSEs upon the sale of the loans. Beginning January 1, 2020, we elected the fair value option on new loss sharing agreements. Unrealized gains and losses are recorded in other non-interest income in our consolidated statements of income. For those loss sharing agreements entered into as of and prior to December 31, 2019, we amortize the liability recorded at inception into non-interest income as we are released from risk of payment under the loss sharing agreement and record our estimate of expected credit losses each period in provision for credit losses in our consolidated statements of income. The liability recognized on our consolidated balance sheets for these loss sharing agreements was \$90 million and \$97 million as of September 30, 2021 and December 31, 2020, respectively.

See “Note 4—Allowance for Credit Losses and Reserve for Unfunded Lending Commitments” for more information related to our credit card partnership loss sharing arrangements.

### **Litigation**

In accordance with the current accounting standards for loss contingencies, we establish reserves for litigation-related matters that arise from the ordinary course of our business activities when it is probable that a loss associated with a claim or proceeding has been incurred and the amount of the loss can be reasonably estimated. None of the amounts we currently have recorded individually or in the aggregate are considered to be material to our financial condition. Litigation claims and proceedings of all types are subject to many uncertain factors that generally cannot be predicted with assurance. Below we provide a description of potentially material legal proceedings and claims.

For some of the matters disclosed below, we are able to estimate reasonably possible losses above existing reserves, and for other disclosed matters, such an estimate is not possible at this time. For those matters below where an estimate is possible, management currently estimates the reasonably possible future losses beyond our reserves as of September 30, 2021 are approximately \$200 million. Our reserve and reasonably possible loss estimates involve considerable judgment and reflect that there is still significant uncertainty regarding numerous factors that may impact the ultimate loss levels. Notwithstanding, our attempt to estimate a reasonably possible range of loss beyond our current accrual levels for some litigation matters based on current information, it is possible that actual future losses will exceed both the current accrual level and the range of reasonably possible losses disclosed here. Given the inherent uncertainties involved in these matters, especially those involving governmental agencies, and the very large or indeterminate damages sought in some of these matters, there is significant uncertainty as to the ultimate liability we may incur from these litigation matters and an adverse outcome in one or more of these matters could be material to our results of operations or cash flows for any particular reporting period.

### **Interchange**

In 2005, a putative class of retail merchants filed antitrust lawsuits against MasterCard and Visa and several issuing banks, including Capital One, seeking both injunctive relief and monetary damages for an alleged conspiracy by defendants to fix the level of interchange fees. Other merchants have asserted similar claims in separate lawsuits, and while these separate cases did not name any issuing banks, Visa, MasterCard and issuers, including Capital One, have entered settlement and judgment sharing agreements allocating the liabilities of any judgment or settlement arising from all interchange-related cases.

The lawsuits were consolidated before the U.S. District Court for the Eastern District of New York for certain purposes and were settled in 2012. The class settlement, however, was invalidated by the United States Court of Appeals for the Second Circuit in June 2016, and the suit was bifurcated into separate class actions seeking injunctive and monetary relief, respectively. In addition, numerous merchant groups opted out of the 2012 settlement and have pursued their own claims. The claims by the injunctive relief class have not been resolved, but the settlement of \$5.5 billion for the monetary damages class received final approval from the trial court, and has been appealed to the U.S. Court of Appeals for the Second Circuit. Visa and MasterCard have also settled a number of the opt-out cases, which required non-material payments from issuing banks, including Capital One. Visa created a litigation escrow account following its initial public offering of stock in 2008 that funds settlements for its member banks, and any settlements related to MasterCard-allocated losses have either already been paid or are reflected in our reserves.

### **Cybersecurity Incident**

On July 29, 2019, we announced that on March 22 and 23, 2019 an outside individual gained unauthorized access to our systems. This individual obtained certain types of personal information relating to people who had applied for our credit card products and to our credit card customers (the “Cybersecurity Incident”). As a result of the Cybersecurity Incident, we are subject to numerous legal proceedings and other inquiries and could be the subject of additional proceedings and inquiries in the future.

*Consumer class actions.* We were named as a defendant in approximately 75 putative consumer class action cases (61 in U.S. federal courts, 1 in California state court, and 13 in Canadian courts) alleging harm from the Cybersecurity Incident and seeking various remedies, including monetary and injunctive relief. The lawsuits allege breach of contract, negligence, violations of various privacy laws and a variety of other legal causes of action. The U.S. consumer class actions have been consolidated for pretrial proceedings before a multi-district litigation (“MDL”) panel in the U.S. District Court for the Eastern District of

Virginia, Alexandria Division, where the remaining 29 consumer class actions are currently pending. In the third quarter of 2020, the MDL court denied in part and granted in part Capital One's motion to dismiss and permitted pretrial discovery to continue.

*Securities class action.* The Company and certain officers have also been named as defendants in a putative class action pending in the MDL alleging violations of certain federal securities laws in connection with statements and alleged omissions in securities filings relating to our information security standards and practices. The complaint seeks certification of a class of all persons who purchased or otherwise acquired Capital One securities from July 23, 2015 to July 29, 2019, as well as unspecified monetary damages, costs and other relief.

*Governmental inquiries.* We have received inquiries and requests for information relating to the Cybersecurity Incident from Congress, federal regulators, relevant Canadian regulators, the Department of Justice, and the offices of approximately fourteen state Attorneys General. We are cooperating with these offices and responding to their inquiries.

In August 2020, we entered into consent orders with the Federal Reserve and the Office of the Comptroller of the Currency ("OCC") resulting from regulatory reviews of the Cybersecurity Incident and relating to ongoing enhancements of our cybersecurity and operational risk management processes. We paid an \$80 million penalty to the U.S. Treasury as part of the OCC agreement. The Federal Reserve agreement did not contain a monetary penalty.

#### ***Taxi Medallion Finance Investigations***

Beginning in 2019, we have received subpoenas from the New York Attorney General's office and from the U.S. Attorney's Office for the Southern District of New York, Civil and Criminal Divisions, relating to investigations of the taxi medallion finance industry we exited beginning in 2015. The subpoenas seek, among other things, information regarding our lending counterparties and practices. We are cooperating with these investigations.

#### ***U.K. PPI Litigation***

In the U.K., we previously sold payment protection insurance ("PPI"). For several years leading up to the claims submission deadline of August 29, 2019 (as set by the U.K. Financial Conduct Authority), we received customer complaints and regulatory claims relating to PPI. As of the first quarter of 2021, COEP has materially resolved the PPI complaints and regulatory claims received prior to the deadline. Some of the claimants in the U.K. PPI regulatory claims process have subsequently initiated legal proceedings, seeking additional redress. We are responding to these proceedings as we receive them.

#### ***Other Pending and Threatened Litigation***

In addition, we are commonly subject to various pending and threatened legal actions relating to the conduct of our normal business activities. In the opinion of management, the ultimate aggregate liability, if any, arising out of all such other pending or threatened legal actions is not expected to be material to our consolidated financial position or our results of operations.

### **Item 3. Quantitative and Qualitative Disclosures about Market Risk**

For a discussion of the quantitative and qualitative disclosures about market risk, see “MD&A—Market Risk Profile.”

### **Item 4. Controls and Procedures**

#### **Overview**

We are required under applicable laws and regulations to maintain controls and procedures, which include disclosure controls and procedures as well as internal control over financial reporting, as further described below.

#### **(a) Disclosure Controls and Procedures**

Disclosure controls and procedures refer to controls and other procedures designed to provide reasonable assurance that information required to be disclosed in our financial reports is recorded, processed, summarized and reported within the time periods specified by the U.S. Securities and Exchange Commission (“SEC”) rules and forms and that such information is accumulated and communicated to management, including our Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding our required disclosure. In designing and evaluating our disclosure controls and procedures, we recognize that any controls and procedures, no matter how well designed and operated, can provide only reasonable assurance of achieving the desired control objectives, and we must apply judgment in evaluating and implementing possible controls and procedures.

#### ***Evaluation of Disclosure Controls and Procedures***

As required by Rule 13a-15 of the Securities Exchange Act of 1934 (“Exchange Act”), our management, including the Chief Executive Officer and Chief Financial Officer, conducted an evaluation of the effectiveness of our disclosure controls and procedures (as that term is defined in Rules 13a-15(e) and 15d-15(e) of the Exchange Act) as of September 30, 2021, the end of the period covered by this Report on Form 10-Q. Based upon that evaluation, the Chief Executive Officer and Chief Financial Officer concluded that our disclosure controls and procedures were effective as of September 30, 2021, at a reasonable level of assurance, in recording, processing, summarizing and reporting information required to be disclosed within the time periods specified by the SEC rules and forms.

#### **(b) Changes in Internal Control Over Financial Reporting**

We regularly review our disclosure controls and procedures and make changes intended to ensure the quality of our financial reporting. There were no changes in internal control over financial reporting that occurred in the third quarter of 2021 that materially affected, or are reasonably likely to materially affect, the Company’s internal control over financial reporting.

**PART II—OTHER INFORMATION****Item 1. Legal Proceedings**

The information required by Item 103 of Regulation S-K is included in “Note 13—Commitments, Contingencies, Guarantees and Others.”

**Item 1A. Risk Factors**

We are not aware of any material changes from the risk factors set forth under “Part I—Item 1A. Risk Factors” in our 2020 Form 10-K.

**Item 2. Unregistered Sales of Equity Securities and Use of Proceeds**

The following table presents information related to the repurchases of shares of our common stock for each calendar month in the third quarter of 2021. Commission costs are excluded from the amounts presented below.

|           | Total Number of Shares Purchased <sup>(1)</sup> | Average Price per Share | Total Number of Shares Purchased as Part of Publicly Announced Plans | Maximum Amount That May Yet be Purchased Under the Plan or Program (in millions) |
|-----------|---|-------------------------|--|--|
| July      | 6,739,636                                       | \$ 158.63               | 6,739,636  | \$ 4,279   |
| August    | 5,228,225                                       | 168.21                  | 5,193,719  | 3,405  |
| September | 4,726,051                                       | 160.85                  | 4,726,051  | 2,644  |
| Total     | <u>16,693,912</u>                               | <u>162.26</u>           | <u>16,659,406</u>  |  |

<sup>(1)</sup> On January 25, 2021, our Board of Directors authorized the repurchase of up to \$7.5 billion of shares of our common stock. There were 34,506 shares withheld in August to cover taxes on restricted stock units (“RSUs”) whose restrictions have lapsed. See “MD&A—Capital Management—Dividend Policy and Stock Purchases” for more information.

**Item 3. Defaults Upon Senior Securities**

None.

**Item 4. Mine Safety Disclosures**

Not applicable.

**Item 5. Other Information**

None.

**Item 6. Exhibits**

An index to exhibits has been filed as part of this Report and is incorporated herein by reference.

**EXHIBIT INDEX**

The following exhibits are incorporated by reference or filed herewith. Reference to the “2003 Form 10-K” is to the Company’s Annual Report on Form 10-K for the year ended December 31, 2003, filed on March 5, 2004.

| <b>Exhibit No.</b> | <b>Description</b>  |
|--------------------|---|
| 3.1                | <a href="#">Restated Certificate of Incorporation of Capital One Financial Corporation (as restated May 1, 2020) (incorporated by reference to Exhibit 3.2 of the Current Report on Form 8-K, filed on May 4, 2020).</a>                          |
| 3.2                | <a href="#">Amended and Restated Bylaws of Capital One Financial Corporation, dated September 23, 2021 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on September 29, 2021).</a>                             |
| 3.3.1              | <a href="#">Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series K, dated September 16, 2020 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on September 17, 2020).</a> |
| 3.3.2              | <a href="#">Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series L, dated May 3, 2021 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on May 4, 2021).</a>               |
| 3.3.3              | <a href="#">Certificate of Designations of Fixed Rate Reset Non-Cumulative Perpetual Preferred Stock, Series M, dated June 9, 2021 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on June 10, 2021).</a>      |
| 3.3.4              | <a href="#">Certificate of Designations of Fixed Rate Non-Cumulative Perpetual Preferred Stock, Series N, dated July 28, 2021 (incorporated by reference to Exhibit 3.1 of the Current Report on Form 8-K, filed on July 29, 2021).</a>           |
| 4.1.1              | <a href="#">Specimen certificate representing the common stock of Capital One Financial Corporation (incorporated by reference to Exhibit 4.1 of the 2003 Form 10-K).</a>   |
| 4.1.2              | <a href="#">Warrant Agreement, dated December 3, 2009, between Capital One Financial Corporation and Computershare Trust Company, N.A. (incorporated by reference to the Exhibit 4.1 of the Form 8-A, filed on December 4, 2009).</a>             |
| 4.1.3              | <a href="#">Deposit Agreement, dated August 20, 2012 (incorporated by reference to Exhibit 4.1 of the Current Report on Form 8-K, filed on August 20, 2012).</a>  |
| 4.2                | Pursuant to Item 601(b)(4)(iii)(A) of Regulation S-K, copies of instruments defining the rights of holders of long-term debt are not filed. The Company agrees to furnish a copy thereof to the SEC upon request.                                 |
| 31.1*              | <a href="#">Certification of Richard D. Fairbank.</a>   |
| 31.2*              | <a href="#">Certification of Andrew M. Young.</a>   |
| 32.1**             | <a href="#">Certification of Richard D. Fairbank.</a>   |
| 32.2**             | <a href="#">Certification of Andrew M. Young.</a>   |
| 101.INS            | XBRL Instance Document - the instance document does not appear in the Interactive Data File because its XBRL tags are embedded within the Inline XBRL document.   |
| 101.SCH*           | Inline XBRL Taxonomy Extension Schema Document.   |
| 101.CAL*           | Inline XBRL Taxonomy Extension Calculation Linkbase Document.   |
| 101.DEF*           | Inline XBRL Taxonomy Extension Definition Linkbase Document.  |
| 101.LAB*           | Inline XBRL Taxonomy Extension Label Linkbase Document.   |
| 101.PRE*           | Inline XBRL Taxonomy Extension Presentation Linkbase Document.  |
| 104                | The cover page of Capital One Financial Corporation’s Quarterly Report on Form 10-Q for the quarter ended September 30, 2021, formatted in Inline XBRL (included within the Exhibit 101 attachments).   |

Indicates a document being filed with this Form 10-Q.

Indicates a document being furnished with this Form 10-Q. Information in this Form 10-Q furnished herewith shall not be deemed to be “filed” for the purposes of Section 18 of the Securities Exchange Act of 1934 or otherwise subject to the liabilities of that Section. Such exhibit shall not be deemed incorporated by reference into any filing under the Securities Act of 1933 or the Securities Exchange Act of 1934.

**SIGNATURES**

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned, thereunto duly authorized.

Date: November 5, 2021

**CAPITAL ONE FINANCIAL CORPORATION**

By: /s/ ANDREW M. YOUNG

Andrew M. Young  
Chief Financial Officer

**CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Richard D. Fairbank, certify that:

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

By: /s/ RICHARD D. FAIRBANK  
Richard D. Fairbank  
Chair, Chief Executive Officer and President

**CERTIFICATION FOR QUARTERLY REPORT ON FORM 10-Q OF CAPITAL ONE FINANCIAL CORPORATION AND CONSOLIDATED SUBSIDIARIES**

I, Andrew M. Young, certify that,

1. I have reviewed this Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 of Capital One Financial Corporation;
2. Based on my knowledge, this report does not contain any untrue statement of a material fact or omit to state a material fact necessary to make the statements made, in light of the circumstances under which such statements were made, not misleading with respect to the period covered by this report;
3. Based on my knowledge, the financial statements, and other financial information included in this report, fairly present in all material respects the financial condition, results of operations and cash flows of the registrant as of, and for, the periods presented in this report;
4. The registrant's other certifying officer and I are responsible for establishing and maintaining disclosure controls and procedures (as defined in Exchange Act Rules 13a-15(e) and 15d-15(e)) and internal control over financial reporting (as defined in Exchange Act Rules 13a-15(f) and 15d-15(f)) for the registrant and have:
  - (a) Designed such disclosure controls and procedures, or caused such disclosure controls and procedures to be designed under our supervision, to ensure that material information relating to the registrant, including its consolidated subsidiaries, is made known to us by others within those entities, particularly during the period in which this report is being prepared;
  - (b) Designed such internal control over financial reporting, or caused such internal control over financial reporting to be designed under our supervision, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles;
  - (c) Evaluated the effectiveness of the registrant's disclosure controls and procedures and presented in this report our conclusions about the effectiveness of the disclosure controls and procedures, as of the end of the period covered by this report based on such evaluation; and
  - (d) Disclosed in this report any change in the registrant's internal control over financial reporting that occurred during the registrant's most recent fiscal quarter (the registrant's fourth fiscal quarter in the case of an annual report) that has materially affected, or is reasonably likely to materially affect, the registrant's internal control over financial reporting; and
5. The registrant's other certifying officer and I have disclosed, based on our most recent evaluation of internal control over financial reporting, to the registrant's auditors and the audit committee of the registrant's board of directors (or persons performing the equivalent functions):
  - (a) All significant deficiencies and material weaknesses in the design or operation of internal control over financial reporting which are reasonably likely to adversely affect the registrant's ability to record, process, summarize and report financial information; and
  - (b) Any fraud, whether or not material, that involves management or other employees who have a significant role in the registrant's internal control over financial reporting.

Date: November 5, 2021

By: /s/ ANDREW M. YOUNG  
Andrew M. Young  
Chief Financial Officer

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Richard D. Fairbank, Chairman, Chief Executive Officer and President of Capital One Financial Corporation ("Capital One"), a Delaware corporation, do hereby certify that:

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date: November 5, 2021

By: /s/ RICHARD D. FAIRBANK  
Richard D. Fairbank  
Chair, Chief Executive Officer and President

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.

**Certification**  
**Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002**  
**(Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code)**

Pursuant to Section 906 of the Sarbanes-Oxley Act of 2002 (Subsections (a) and (b) of Section 1350, Chapter 63 of Title 18, United States Code), I, Andrew M. Young, Chief Financial Officer of Capital One Financial Corporation ("Capital One"), a Delaware corporation, do hereby certify that:

1. The Quarterly Report on Form 10-Q for the quarter ended September 30, 2021 (the "Form 10-Q") of Capital One fully complies with the requirements of Section 13(a) or 15(d) of the Securities Exchange Act of 1934; and
2. The information contained in the Form 10-Q fairly presents, in all material respects, the financial condition and results of operations of Capital One.

Date: November 5, 2021

By: /s/ ANDREW M. YOUNG

Andrew M. Young  
Chief Financial Officer

A signed original of this written statement required by Section 906 has been provided to Capital One and will be retained by Capital One and furnished to the Securities and Exchange Commission or its staff upon request.