Liquidity Coverage Ratio Disclosures

September 30, 2024

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INTRODUCTION

Overview

Capital One Financial Corporation, a Delaware corporation established in 1994 and headquartered in McLean, Virginia, is a diversified financial services holding company with banking and non-banking subsidiaries. Capital One Financial Corporation and its subsidiaries (the "Company" or "Capital One") offer a broad array of financial products and services to consumers, small businesses and commercial clients through digital channels, branch locations, cafés and other distribution channels.

On February 19, 2024, Capital One Financial Corporation entered into an agreement and plan of merger to acquire Discover Financial Services, a Delaware corporation ("Discover") in an all-stock transaction. The closing of the transaction is subject to the satisfaction of customary closing conditions, including receipt of required regulatory approvals and approval by our stockholders and the stockholders of Discover. This agreement and plan of merger was unanimously approved by the Boards of Directors of each of Capital One and Discover. For additional information related to the this agreement and plan of merger, see "Part I—Item 1. Financial Statements —Note 2—Business Combinations" in our Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2024 (the "Q3 2024 Form 10-Q").

As of September 30, 2024, Capital One Financial Corporation's principal operating subsidiary was Capital One, National Association (the "Bank"). The Company is hereafter collectively referred to as "we," "us" or "our."

Regulatory Framework

The Company and the Bank are subject to the Liquidity Coverage Ratio Rule ("LCR Rule") published by the Basel Committee on Banking Supervision and as implemented by the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency and the Federal Deposit Insurance Corporation ("FDIC") (collectively, the "Federal Banking Agencies") in the United States. The LCR Rule requires covered institutions to hold an amount of unencumbered high-quality liquid assets ("HQLA") that equals or exceeds 100% of their respective projected net cash outflows ("NCO") over a 30 calendar-day stress period as calculated in accordance with the LCR Rule:

$$\frac{\textit{High Quality Liquid Assets}}{\textit{Total Net Cash Outflow}} \geq 100\%$$

The LCR Rule requires quarterly public disclosure of quantitative information about a covered institution's Liquidity Coverage Ratio ("LCR") calculation and a qualitative discussion of its LCR. The Company and the Bank are required to calculate their respective LCR on a daily basis. Additionally, the Company is required to disclose the quarterly average of its LCR. For the three months ended September 30, 2024, the Company and the Bank exceeded the LCR requirement.

As a bank holding company with total consolidated assets of at least $250 billion but less than $700 billion and not exceeding any of the applicable risk-based thresholds, the Company is a Category III institution for purposes of the LCR Rule. As such, the Company's and the Bank's total net cash outflows are multiplied by an outflow adjustment percentage of 85%. Although the Bank may maintain more HQLA than it needs to meet its LCR requirements, the LCR Rule restricts the amount of such excess HQLA held at the Bank (referred to as "Trapped Liquidity") that can be included in the Company's HQLA Amount. We typically manage the Bank's LCR to levels well above 100%, resulting in additional Trapped Liquidity.

For additional information about the liquidity guidelines we are subject to, see "Part I—Item 1. Business—Supervision and Regulation" in our Annual Report on Form 10-K for the year ended December 31, 2023 (the "2023 Form 10-K") and "Part I—Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations ("MD&A")— Liquidity Risk Profile" in our Q3 2024 Form 10-Q.

Basis of Preparation

This report contains our LCR disclosures for the quarterly period ended September 30, 2024, and has been prepared in accordance with the regulatory guidance prescribed by the LCR Rule. It should be read in conjunction with our Q3 2024 Form 10-Q.

Forward-Looking Statements

Certain statements in this disclosure are forward-looking statements, which involve a number of risks and uncertainties. Forward-looking statements often use words such as "will," "anticipate," "target," "expect," "think," "estimate," "intend," "plan," "goal," "believe," "forecast," "outlook" or other words of similar meaning. We caution readers that any forward-looking information is not a guarantee of future performance and that actual results could differ materially from those contained in the forward-looking information due to a number of factors, including those listed from time to time in reports that we file with the Securities and Exchange Commission ("SEC"), including, but not limited to the Q3 2024 Form 10-Q and 2023 Form 10-K. 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.

Liquidity Risk Management

Our risk appetite defines the Board of Directors' tolerance for certain risk outcomes at an enterprise level and enables senior management to manage and report within these boundaries. The Board of Directors approves a Risk Appetite Statement for the enterprise to set forth the high-level principles that govern risk taking at the Company.

Liquidity risk is the risk that we will not be able to meet our 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.

We manage liquidity risk by applying our Liquidity Adequacy Framework (the "Liquidity Framework"). The Liquidity Framework uses internal and regulatory stress testing and the evaluation of other balance sheet metrics to confirm that we maintain a fortified balance sheet that is resilient to uncertainties that may arise as a consequence of systemic, idiosyncratic, or combined liquidity events.

We recognize that liquidity risk is embedded within our day-to-day and strategic decisions. Liquidity is essential for banks to meet customer withdrawals, account for balance sheet changes, and provide funding for growth. We have acquired and built deposit gathering businesses and actively monitor our funding concentration. We manage our liquidity risk, which is driven by both internal and external factors, centrally and establish quantitative risk limits to continually assess our liquidity adequacy.

The Chief Credit and Financial Risk Officer, in conjunction with the Head of Liquidity, Market and Capital Risk Oversight, is responsible for the establishment of liquidity risk management policies and standards for governance and monitoring of liquidity risk at a corporate level. We assess liquidity strength by evaluating several different balance sheet metrics under severe stress scenarios to ensure we can withstand significant funding degradation. Results are reported to the Asset Liability Committee monthly and to the Risk Committee no less than quarterly. We also continuously monitor market and economic conditions to evaluate emerging stress conditions and to develop appropriate action plans in accordance with our Contingency Funding Plan ("CFP") and our Recovery Plan.

We manage our funding and liquidity risk in an integrated manner in support of the current and future cash flow needs of our business. We maintain a stockpile of liquidity reserves including cash and cash equivalents, investment securities, and Federal Home Loan Bank ("FHLB") borrowing capacity secured by loans. Our primary source of funding comes from insured retail deposits, as they are a relatively stable and lower 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.

For additional information on our risk framework and structure and organization of the Liquidity Risk Management function, see "Part I—Item 2. MD&A—Risk Management" in our Q3 2024 Form 10-Q and "Part II—Item 7. MD&A—Risk Management" in our 2023 Form 10-K.

Liquidity Coverage Ratio

The LCR Rule requires the Company to hold an HQLA Amount that equals or exceeds 100% of our projected net cash outflows over a 30 calendar-day stress period.

Table 1 provides a summary of our average weighted daily LCR for the quarterly period ended September 30, 2024.

Table 1: Liquidity Coverage Ratio

	Three Months Ended September 30, 2024
(Dollars in millions)	**Average Weighted**[(1)]
HQLA Amount[(2)]	$ 54,353
Total adjusted NCO amount[(3)]	$ 33,324
LCR	163 %

(1) Represents the average weighted amount after applying regulatory prescribed HQLA haircuts or cash outflow and inflow rates.

(2) Excludes Trapped Liquidity at the Bank.

(3) Total net cash outflow reduced to 85%.

The Company's average LCR was driven by:

- HQLA Amount, which primarily consists of cash on deposit at central banks and eligible Level 1 and Level 2A securities; and

- NCO, predominantly related to deposits.

The Company's average LCR increased from 155% to 163% from the second quarter of 2024 to the third quarter of 2024 as the Company increased its parent debt outstanding and we chose to hold more of this liquidity at the holding company instead of at the Bank subsidiary. Our LCR may fluctuate period over period as a result of ongoing business activity. We provide additional information on HQLA and NCO in the "High-Quality Liquid Assets" and "Net Cash Outflows" sections of this report, respectively.

High-Quality Liquid Assets

HQLA are assets that can be easily and quickly converted into cash. Under the LCR Rule, assets may qualify as eligible HQLA if they are unencumbered, are able to be monetized, and are free of any other transfer restrictions. Eligible HQLA are categorized based on their risk profile, market-based characteristics, and central bank eligibility, and are divided into three categories: Level 1, Level 2A and Level 2B. Level 1 assets include central bank reserves (less any applicable reserve requirements) and certain marketable securities issued or backed by sovereigns and central banks. Level 2A assets, which are subject to a 15% haircut, generally include certain securities backed by U.S. government-sponsored enterprises and securities issued by sovereigns or central banks which are not eligible for the Level 1 category. Level 2B assets, subject to a 50% haircut, generally include certain corporate debt securities and publicly traded common equities.

The LCR Rule prescribes a liquid asset cap such that an institution cannot have more than 40% of its HQLA in Level 2 assets and no more than 15% of its HQLA in Level 2B assets. To the extent an institution has excess Level 2A or Level 2B assets, that excess is not included in the HQLA Amount used for purposes of computing the LCR. In addition, per the LCR Rule, the Company's HQLA Amount also excludes any Trapped Liquidity, which is the HQLA held at the Bank in excess of the Bank's total net cash outflows that are not transferable to non-bank affiliates.

The following table provides the average values of our HQLA and related components for the quarterly period ended September 30, 2024.

Table 2: Eligible HQLA Composition

	Three Months Ended September 30, 2024	
(Dollars in millions)	**Average Unweighted[1]**	**Average Weighted[2]**
Eligible HQLA[3]	**$ 56,657**	**$ 54,353**
Eligible Level 1 liquid assets	41,299	41,299
Eligible Level 2A liquid assets	15,358	13,054
Eligible Level 2B liquid assets	—	—

(1) Represents the average unweighted amount of eligible HQLA before applying regulatory prescribed haircuts.

(2) Represents the average weighted amount after applying regulatory prescribed HQLA haircuts.

(3) Excludes Trapped Liquidity at the Bank. Eligible HQLA may not equal "HQLA Amount" reported in Tables 1 and 5 due to the application of the Level 2 liquid asset caps. Eligible Level 2 assets in this table may exceed the 40% cap.

Net Cash Outflows

The total NCO amount is determined by calculating the prescribed outflows and inflows over a 30 calendar-day stress horizon. The NCO amount is calculated by applying outflow and inflow rates to certain assets, liabilities and off-balance sheet arrangements based on their contractual maturity as prescribed in the LCR Rule. Where contractual maturity is not applicable, the LCR Rule generally sets forth conservative stressed outflow assumptions.

The LCR Rule caps the amount of cash inflows that an institution can assume in a stress event at 75% of cumulative cash outflows. The LCR Rule also requires covered institutions to adjust the NCO amount by the difference between the peak day mismatch between cumulative outflows and inflows over the 30 calendar-day time horizon and the total inflows and outflows on the final day of that horizon ("Maturity Mismatch Add-On"). This add-on is intended to address potential maturity mismatches between early outflows and late inflows.

The following table provides a summary of our average NCO amounts for the quarterly period ended September 30, 2024. As a Category III institution, the total NCO amount is adjusted after including the Maturity Mismatch Add-On ("Total Unadjusted NCO Amount") by an outflow adjustment percentage of 85%, resulting in the Total Adjusted NCO amount that is used to compute our LCR.

Table 3: Net Cash Outflows

	Three Months Ended September 30, 2024
(Dollars in millions)	**Average Weighted[1]**
Total NCO amount excluding the Maturity Mismatch Add-On	$ 36,097
Maturity Mismatch Add-On	3,108
Total Unadjusted NCO amount	39,205
Outflow Adjustment Percentage	85 %
Total Adjusted NCO amount	$ 33,324

(1) Represents the average weighted amount after applying regulatory prescribed cash outflow and inflow rates.

Source of Funds

The Company's primary source of funding comes from insured retail deposits, as they are a relatively stable and lower cost source of funding. The Company also sources deposits from non-retail customers and counterparties, which primarily consist of commercial deposits. Under the LCR Rule, these non-retail deposits are generally classified as either operational or non-operational. Finally, the Company sources deposits through the mediation or assistance of deposit brokers. These deposits are segmented and assigned outflows according to the type of account, whether deposit insurance is in place and the maturity date of the deposit agreement.

A significant portion of our retail deposits are fully FDIC-insured and are considered to be stable under the LCR Rule. Under the LCR Rule, the Company is required to categorize the full amount of any deposit that is above the FDIC limit as uninsured, even though the portion of that deposit that is within the FDIC limit would be insured. Under the LCR treatment, uninsured deposits will be higher than the level presented in our SEC filings. Our Q3 2024 Form 10-Q provides an estimate of the uninsured deposit amounts that excludes the portion of a deposit that is within the FDIC limit and is based on methodologies and assumptions used for our "Consolidated Reports of Condition and Income" (FFIEC 031) filed with the Federal Banking Agencies. Our uninsured deposit amount disclosed in our Q3 2024 Form 10-Q was $62.1 billion, which is less than the uninsured deposit amount for LCR purposes as of September 30, 2024 due to the treatment described above. Intercompany balances and cash collateral received on certain derivative contracts are excluded for both the LCR uninsured calculation as well as the uninsured amount reflected in the Q3 2024 Form 10-Q.

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 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.

For additional information on our source of funds and uninsured deposit base, see "Part I—Item 2. MD&A—Consolidated Balance Sheets Analysis—Funding Sources" and "Part I—Item 2. MD&A—Liquidity Risk Profile—Funding" in our Q3 2024 Form 10-Q as well as "Part II—Item 7. MD&A—Consolidated Balance Sheets Analysis—Funding Sources" and "Part II—Item 7. MD&A—Liquidity Risk Profile—Funding" in our 2023 Form 10-K.

The following table provides a summary of our average deposit and wholesale funding outflows under the LCR Rule for the quarterly period ended September 30, 2024.

Table 4: Deposit and Wholesale Funding Outflows

	Three Months Ended September 30, 2024	
(Dollars in millions)	Average Unweighted[1]	Average Weighted[2]
Deposit outflow from retail customers and counterparties, of which:	**$ 312,221**	**$ 17,210**
Stable retail deposit outflow	213,339	6,400
Other retail funding outflow	85,140	8,530
Brokered deposit outflow	13,742	2,280
Unsecured wholesale funding outflow, of which:	**32,331**	**12,305**
Operational deposit outflow	11,663	2,841
Non-operational funding outflow	20,291	9,087
Unsecured debt outflow	377	377
Total	**$ 344,552**	**$ 29,515**

(1) Represents the average unweighted amount before applying regulatory prescribed cash outflow rates.

(2) Represents the average weighted amount after applying regulatory prescribed cash outflow rates.

Derivative Usage

We use derivatives to manage market risk exposures in accordance with market risk management policies and limits that are approved by our Board of Directors. The majority of the derivatives that we use to manage the Company's market risk exposures are interest rate and foreign currency swaps. In addition, we may use other derivative instruments, including caps, floors, options, futures and forward contracts, to manage our market risks.

In addition to using derivatives to manage our market risk exposures as noted above, 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 offset the substantial majority of the market risk exposure of our customer accommodation derivatives through derivative transactions with other counterparties.

For purposes of the LCR Rule, an institution's net derivative cash outflow or inflow amount equals the sum of contractual payments, collateral and initial margin that will be made or delivered to or received from each counterparty over the prospective 30 calendar-day time horizon.

For additional information on derivative transactions, see "Part I—Item 1. Financial Statements—Note 9—Derivative Instruments and Hedging Activities" in our Q3 2024 Form 10-Q.

LCR Quantitative Disclosures

The following table provides the average values for our LCR and related components calculated pursuant to the LCR Rule for the quarterly period beginning July 1, 2024 and ending September 30, 2024.

Table 5: LCR Quantitative Disclosures

	Three Months Ended September 30, 2024	
(Dollars in millions, except as noted)	Average Unweighted[1]	Average Weighted[2]
High Quality Liquid Assets:		
Total eligible high-quality liquid assets (HQLA), of which:[3]	**$ 56,657**	**$ 54,353**
Eligible Level 1 liquid assets	41,299	41,299
Eligible Level 2A liquid assets	15,358	13,054
Eligible Level 2B liquid assets	—	—
Cash Outflow Amounts:		
Deposit outflow from retail customers and counterparties, of which:	**312,221**	**17,210**
Stable retail deposit outflow	213,339	6,400
Other retail funding outflow	85,140	8,530
Brokered deposit outflow	13,742	2,280
Unsecured wholesale funding outflow, of which:	**32,331**	**12,305**
Operational deposit outflow	11,663	2,841
Non-operational funding outflow	20,291	9,087
Unsecured debt outflow	377	377
Secured wholesale funding and asset exchange outflow	**5,748**	**766**
Additional outflow requirements, of which:	**50,445**	**15,939**
Outflow related to derivative exposures and other collateral requirements	7,866	7,793
Outflow related to credit and liquidity facilities including unconsolidated structured transactions and mortgage commitments	42,579	8,146
Other contractual funding obligation outflow	**270**	**270**
Other contingent funding obligations outflow	—	—
Total cash outflow	**$ 401,015**	**$ 46,490**
Cash Inflow Amounts:		
Secured lending and asset exchange cash inflow	**$ 356**	**$ 356**
Retail cash inflow	**5,877**	**2,939**
Unsecured wholesale cash inflow	**3,240**	**2,668**
Other cash inflows, of which:	**4,430**	**4,430**
Net derivative cash inflow	4,259	4,259
Securities cash inflow	171	171
Broker-dealer segregated account inflow	—	—
Other cash inflow	—	—
Total cash inflow	**$ 13,903**	**$ 10,393**

	Average Total[4]
HQLA Amount[5]	**$ 54,353**
Total Net Cash Outflow Amount Excluding The Maturity Mismatch Add-On	**36,097**
Maturity Mismatch Add-On	**3,108**
Total Unadjusted Net Cash Outflow Amount	**39,205**
Outflow Adjustment Percentage	**85 %**
Total Adjusted Net Cash Outflow Amount	**$ 33,324**
Liquidity Coverage Ratio (%)	**163 %**

(1) Represents the average unweighted amount of eligible HQLA and NCO before applying regulatory prescribed haircuts or cash outflow and inflow rates.

(2) Represents the average weighted amount after applying regulatory prescribed HQLA haircuts or cash outflow and inflow rates.

(3) Excludes Trapped Liquidity at the Bank. Eligible HQLA may not equal “HQLA Amount” reported in this table due to the application of the Level 2 liquid asset caps. Eligible Level 2 assets may exceed the 40% cap.

(4) The amounts reported in this column may not be equal to the calculation of those amounts using component amounts as reported in the preceding portion of the table due to factors such as the application of the Level 2 liquid asset caps and the total inflow cap.

(5) Excludes Trapped Liquidity at the Bank.